Dr Pepper Snapple Group:
Fighting to Prosper In a Highly Competitive Market

June 2011

Larry Young, President and CEO of Dr Pepper Snapple Group, Inc. (DPS) seemed to be on a roll. Named 2010 Beverage Executive of the Year by Beverage Industry Magazine, he led the company through three very difficult economic years since it separated from the London-based food and beverage giant Cadbury Schweppes. Reflecting on that time, he chuckled, "There couldn't have been a worse year to go public."[1] Triggered by the collapse of mortgage-backed securities, the recession froze the credit markets and led to unprecedented commodities prices. In spite of adverse economic conditions and fierce competition, the company managed to obtain modest growth in sales in 2010.

Perhaps most satisfying of all was the recent turnaround of the Snapple Brand, which had been struggling for many years.[2] Sales volume for the brand grew 10 percent in 2010, fueled by new products, packages and distribution. In addition, Dr Pepper, Canada Dry, Crush, Mott's and Hawaiian Punch all experienced increases in demand. A healthy cash flow allowed the company to pay down its debt, increase dividends and repurchase shares.

A question remained as to whether the company was simply taking advantage of some fairly obvious opportunities that it could not pursue when it was under Cadbury Schweppes ownership, or whether this number three firm could actually begin to prosper in an industry dominated by two of the strongest brands in the world. After all, although DPS sales were up almost 2 percent in 2010, profits were lower than in 2009. In comparison, Coca Cola Company experienced growth in revenues of 13.3 percent in 2010, with operating income increasing by 2.7 percent. During the same time period, PepsiCo had revenue growth of 33.8 percent and growth in operating profit of 3.6 percent.

THE DR PEPPER SNAPPLE STORY

The original Dr Pepper soft drink was invented in 1885 by a young pharmacist named Charles Alderton. At the time, Alderton was working at Morrison's Old Corner Drug Store in Waco Texas, which served carbonated soft drinks from a soda fountain. Using that resource, Alderton began to experiment with his own recipes and soon discovered that one particular drink, referred to as "the Waco," was gaining popularity among his customers. As demand grew, Alderton and Morrison brought in a third partner to help with the manufacture and bottling of the soft drink. The partner was Robert S Lazenby, owner of the Circle "A" Ginger Ale Company. Alderton left the business shortly thereafter, but Morrison and Lazenby continued on to form what would come to be known as the Dr Pepper Company, named after a friend of Morrison. The company was introduced to the general public in 1904 at the World's Fair Exposition in St. Louis.[3]

From its humble beginnings in Morrison's Old Corner Drug Store, the company Alderton and Morrison started has become one of the largest beverage manufacturers in North America. The current product portfolio of DPS is closely tied to the history of mergers and acquisitions of its one time parent company, Cadbury Schweppes plc (Cadbury Schweppes). Cadbury Schweppes emerged in 1969 from the merger of Cadbury plc, a British confectionary and soft drink company, and Schweppes, an international beverage brand. In the three decades that followed, Cadbury Schweppes gained the third largest share of the beverage market in North America through strategic acquisitions. Some notable acquisitions included the Duffy-Mott Company (later known as Mott's), Canada Dry, Sunkist, Crush and Sun Drop in the 1980s. In 1993 the company bought the A&W Brands Squirt and Vernors as well as its signature root beer and cream soda flavors. Cadbury finally purchased Dr Pepper/Seven Up, Inc in 1995, in an acquisition that brought Dr Pepper, 7UP, IBC Root Beer and the Welch's soft drink line into the company portfolio.[4]

In 2000, Cadbury Schweppes acquired the Snapple Beverage Group (Snapple). Snapple had previously been part of a failed acquisition by Quaker in 1994. The acquisition had been intended to help Quaker strengthen its beverage division, which included Gatorade at the time. However, after a failure to successfully integrate the contrasting corporate cultures, Snapple was acquired by Triarc Companies in 1997, an investment company with a history of purchasing struggling assets.[5] It was from Triarc that Cadbury Schweppes ultimately acquired Snapple.

Three years after the acquisition of Snapple, Cadbury Schweppes combined its four North American beverage companies—Dr Pepper/Seven Up, Snapple, Mott's, and Bebidas Mexico—into Cadbury Schweppes Americas Beverages (CSAB). By 2006, CSAB had developed a common vision, business strategy and management structure, as well as establishing its own bottling and distribution network. Finally in May 2008, under the direction of Larry Young, CSAB officially spun-off from Cadbury's confectionary manufacturing division and became known as Dr Pepper/Snapple Group, Inc (NYSE=DPS).[6]

Today, DPS manufactures, markets, and distributes over 50 brands of carbonated soft drinks, juices, mixers, teas, and other beverages. In addition to Dr Pepper and Snapple brand drinks, DPS products include Mott's juices, 7UP, A&W, RC Cola, Squirt, Sunkist soda, Canada Dry, Schweppes, Hawaiian Punch, Yoo-hoo, and other well-known beverages.[7] It has market share of over 40 percent in the non-cola carbonated soft drink category.

THE COMPANY

Dr Pepper/Snapple Group, Inc (DPS) is a major beverage company with an integrated business model including brand ownership, bottling, and distribution of nonalcoholic beverages in the US, Canada and Mexico. The company's portfolio includes dozens of brands of flavored (non-cola) carbonated soft drinks and noncarbonated beverages like mixers, juice drinks, and ready-to-drink teas and juices. Since the spinoff of Cadbury in May 2008 the company has established itself as the top non-cola carbonated soft drink company in the US, and has maintained the number three spot in the broader beverage industry in North America.[8]

The Management Team

Current DPS management includes seasoned professionals with decades of experience in the food and beverage industry. Most notable in the organization are president and CEO Larry Young, chief financial officer Martin Ellen, and President of Packaged Beverages Rodger L. Collins.[9]

President and CEO: Larry Young.

Larry Young has been president and CEO of the company since October 2007 and led the separation of DPS from Cadbury in 2008. Before coming to the company, Young had worked for more than 25 years in the Pepsi system, where he began as a truck driver and worked his way up to president and CEO of Pepsi-Cola General Bottlers. In 2005, he joined the Dr Pepper/Seven Up Bottling Group, again as president and CEO. Young finally joined Cadbury Schweppes in April 2006 when it acquired Dr Pepper/Seven Up.

Chief Financial Officer: Martin Ellen.

Martin Ellen joined DPS in April 2010. He has 25 years of experience as chief financial officer in companies in manufacturing, franchising, distribution and service industries. His previous appointment was at Snap-on Inc., a manufacturer and marketer of professional tools, equipment and software. His beverage-industry experience was obtained at Whitman Corporation, owner of Pepsi Cola General Bottlers, where he helped realign and expand Pepsi bottling territories in the U.S. and Europe.

President of Packaged Beverages: Rodger L. Collins.

Rodger Collins has been affiliated with the bottling group of Dr Pepper Snapple or its predecessors for more than 30 years, having survived numerous acquisitions, restructurings and the spin off of DPS from Cadbury Schweppes. In his current role, he manages a coast-to-coast sales force and fleet with responsibility for direct-to-store delivery and warehouse distribution.

Board of Directors

As a publicly traded company, DPS management is directed by a Board of Directors chaired by Wayne Sanders, who served as Chairman and CEO of Kimberly-Clark Corporation until retiring in 2003.[10] As stated in the company's Corporate Governance Guidelines, the responsibility of the board is to manage the business affairs of the company, including regular evaluation of strategic direction, policies and procedures, and top management. They must ensure that the company's managers act in the best interests of the company and its stockholders and maintain a high level of ethical conduct.[11] In addition to Chairman Sanders, the Board of Directors has eight other directors, including John Adams formerly of Trinity Industries and Texas Commercial Bank, Terence Martin former senior vice president and CFO of Quaker Oats, and DPS CEO Larry Young. [12] (For full information on directors, see Exhibit 1).

Company Strategies

Since it was spun off from Cadbury Schweppes, DPS management has concentrated a great deal of time and attention on strategy development and implementation. Through focused strategic development, management has sought to establish itself as a leader in the higher margin segments of the nonalcoholic beverage industry.

Consistent with this strategic direction, management has established six specific strategies:

- Build and enhance leading brands.
- Focus on opportunities in high growth and high margin categories.
- Increase presence in high margin channels and packages.
- Leverage its integrated business model.
- Strengthen its distribution channels through acquisitions.
- Improve operating efficiency

While most of the strategies are centered on internal development, management is attempting to broaden its market through continued acquisition activity and contractual agreements with other organizations.[13] Whether internally or externally focused, however, the key to implementing each of these strategies has been a focus on marketing. (For a detailed explanation of DPS strategies, see Exhibit 2).

Marketing

Shortly after DPS demerged from Cadbury, the economy in the United States began to struggle and discretionary spending was constricted. As a result, sales in the industry tanked, leading many companies within the industry to drastically cut marketing budgets. In contrast to the mainstream reaction, DPS intensified its focus on marketing and advertising. The decision was based on an analysis of the recession in the early 1980s, performed by Nielson, a major marketing research company and a partner of DPS. The analysis looked at brands across multiple consumer categories from 1983 to 1984, and found that the most successful brands all participated in one common strategy—continued investment in core brands. Consequently, DPS dramatically increased its marketing budget for its core brands and focused its marketing money on brand development, availability, and advertising.[14]

Brand Development

Despite slow sales in the overall non-cola carbonated soft drink market, many top managers within the company believe that flavored soft drinks show room for growth. As Young put it, they believe that while consumers are growing tired of colas, flavored soft drinks are the "sweet spot" in the industry. By developing its flavored brands like Dr Pepper, Sunkist, and A&W, DPS believes it has the potential to gain market share over its rivals.[15]

DPS has made a number of changes to its soft drink brands, including the addition of a new Green Tea Ginger Ale to the Canada Dry line, the extension of a 7UP line with added antioxidants, an updated recipe for A&W Root Beer that includes aged vanilla, and the development of Dr Pepper Cherry, for consumers who prefer a lighter tasting Dr Pepper.[16] In addition to soft drink development, the company participates in investment and development to recover lost distribution in healthier flavored water and energy drinks. For example, it invested in Hydrive Energy LLC, a small energy drink maker, and created Snapple Antioxidant water to compensate for the loss of Vitaminwater to Coca-Cola.[17] Also, DPS created Venom, a new energy drink to recover losses from two previous brands. [18]

More than just adding and investing in new product line extensions, DPS also refocused its efforts related to existing products. The most dramatic change occurred within its Snapple Brand, which had been struggling before the separation from Cadbury. For instance, in the third quarter of 2008, Snapple sales had fallen 10 percent, contributing greatly to the company's 31 percent drop in profits for that quarter. [19] In response to the drop in sales in 2008, DPS changed everything about the product—from its packaging and look, to its taste, to the marketing thrust associated with the brand. The new Snapple included new formulations for its teas to increase consumer interest, and began to focus on the health benefits of the product. DPS also began to distribute Snapple juices and lemonades in sleek 16-ounce glass bottles with labels indicating their health benefits.[20] These and other changes paid off, as sales of Snapple actually increased in 2010, in spite of a poor economic climate.

Increasing Advertising and Availability

Despite the company's strong history of brand development, many of its brands, such as Mott's, A&W and Canada Dry, had not received any serious advertising investment since the end of the 1990s.[21] Beyond developing the brands, the company recognized the need to increase its efforts in advertising and distribution. Marketing Chief Jim Trebilcock explained the strategy:

> We have, in our portfolio, a host of brands that are very trusted, high-quality brands and at times like these, we believe if we invest in them…we can make a pretty significant impact on our business moving forward and actually strengthen and position ourselves for consistent growth when we come out of this economic downturn.[22]

Most notable among the changes in advertising was the use of celebrities, a strategy that had worked for Snapple in the late 80s and early 90s.[23] In connection with Dr Pepper, DPS's most heavily supported brand, the company launched a television commercial campaign including celebrities like the rapper/producer Dr Dre and Gene Simmons of the rock band Kiss. In the commercials, the celebrities endorse Dr Pepper by referring to its superior taste and flavor and then simply stating, "Trust me, I'm a doctor."

In addition to television commercials, DPS also began to target specific demographic segments through online viral marketing. In 2009, for example, the entire budget for Sunkist was to be allocated to a viral campaign targeted towards teenagers and 20 percent of the budget for Dr Pepper was allocated to Internet advertising. Although this was a fairly significant change compared to earlier DPS marketing strategies, management believed that reaching out through the Internet would help the company connect to its markets in a more relevant way.[24]

To supplement the increase in advertising, DPS also focused more attention on distribution. One of the major methods for increasing distribution was by investing in coolers, vending machines, and fast-food fountains containing DPS products. In 2008, DPS added 31,000 fountain placements in fast-food restaurants throughout the US. In 2009, the company announced that it would add its products to 14,000 McDonald's franchises in order to increase its availability in that chain from 60 to 100 percent. In that same year, the company also outlined a strategy that would add 175,000 coolers and vending machines throughout the country over a five-year period.[25] Again, Trebilcock commented on the strategy:

> If you have people drinking your products at work, at play, when they go into the grocery store, they're going to buy that product and take it home with them. So we put a very strong focus on what we like to refer to as our lower per-cap markets. We beefed up our marketing there, we've made sure we were closing distribution voids, placing cold drink equipment. Our fountain/foodservice team has done an excellent job of getting Dr Pepper and some of the other brands on the fountain equipment.[26]

Other major investments in distribution came in the form of joint ventures with proven distributers that significantly increased the availability of particular soft drink brands. For example, agreements with Pepsi Bottling Group in NY and PepsiAmericas in MN more than doubled the availability of Crush, making it the second best-selling orange-flavored soft drink behind Sunkist, which DPS also owns.[27] Also, DPS signed a $715 million dollar deal in 2010 that gives Coke the rights to distribute Dr Pepper and Canada Dry in the U.S.[28]

Operations

DPS is headquartered in Plano, Texas, and employs approximately 20,000 people throughout North America and the Caribbean. It operates 24 production plants and more than 200 distribution centers in those areas.[29] Almost all beverage concentrates are produced in a plant in St. Louis, Missouri. The business model includes both company-owned direct-store-delivery (DSD) distribution, as well as third-party distribution. Within the model, approximately 40 percent of the company's volume is distributed through company-owned networks, another 40 percent through third-party distributers in the Coca-Cola, Pepsi-Cola and independent bottler systems, and the remaining portion is split between warehouse direct and foodservice distributors.[30]

All of the internal DSD distribution is carried out by railroad and truck, operating on a hub-and-spoke supply chain system with major distribution centers in key areas. The hub-and-spoke system is set up to provide manufacturing capabilities in all five major US regions—northeast, southeast, mid-west, southwest, and western. It allows for orders to be filled closer to customers, increasing customer service and controlling transportation costs. As stated by Joe Rowland, senior vice president and business unit general manager for the Central and Southeast regions, DPS has "the ultimate goal of providing better service to the customer, because that will translate to sales."[31]

A good example of DPS's operations is its largest hub, which is based in Northlake, IL and distributes to Chicago and its surrounding areas. The facility is about one million square feet in size and employs 1,250 people, 750 of which work on-site and the rest in the field. On-site operations consist of nine manufacturing lines, including plastic bottle, can, and a hot-fill glass lines for DSD distribution and a bag-in-box line for soda fountains at foodservice locations. Most of the lines are versatile, allowing for variations in batches, but some also have unique capabilities. For example, Line 1 produces cold-fill glass and plastic bottles, while the Snapple line produces hot-fill products. The Northlake facility produces about 220,000 cases of product a day, which are stored in the company's 25-dock warehouse until they are loaded onto one of the 140 to 150 truck fleet owned by the facility.[32] In addition to line manufacturing, the facility utilizes a quality assurance program to check for both internal specifications and external requirements. DPS works closely with external auditors, such as the American Institute of Bakers, to ensure that manufacturing and other processes conform to product requirements.

In order to facilitate business operations, DPS makes use of highly integrated information systems and networks. Prior to 2008, Cadbury Schweppes supplied all IT support and staffing for DPS. Since the separation, the company has developed completely independent IT operations, with primary hosting based in Toronto, Canada and two primary vendors for application support and maintenance outsourced to India.[33]

Under the leadership of Marty Ellen, CFO, the company has embarked on a program they call Rapid Continuous Improvement (RPI). According to Marty, "RCI is about excelling at delivering customer value and improving productivity by eliminating all non-value-adding activities, thereby enhancing growth opportunities."[34] The company is examining its supply chain, including innovation, manufacturing, marketing, distribution, and administration, and looking for ways to increase efficiency, consistent with Six Sigma improvement methods.

Financial Performance

Overall, DPS financial performance since the spinoff has exceeded analyst expectations. While many of the company's brands experienced moderate-to-high growth in 2010, Sunkist, 7UP and A&W declined, leading to overall company sales of $5.6 billion, up about 2 percent from 2009. In spite of the sales increase and measures the company took to increase efficiency, profits were down approximately 5 percent from the prior year. Nevertheless, the company experienced a huge loss in 2008, and the economy was very challenging in 2009 and 2010, so financial performance should be considered in its appropriate context (For detailed financial statements, see Exhibit 3). The company experienced large increases in cash flows from operations during 2010. The company used the additional cash to increase dividends, pay down debt and buy back common stock.

THE INDUSTRY

The Dr Pepper/Snapple Group (DPS) competes in the US beverage manufacture and bottling industry (NAICS: 42119). The industry is made up of about 3,000 companies, including manufacturers, bottlers and distributers of nonalcoholic beverages. Despite the vast number of companies in the industry, revenues are highly concentrated. Over 90 percent of the combined $70 billion in annual revenues are generated by the three largest companies—Coca-Cola, PepsiCo, and DPS—and their subsidiaries. The major products in the industry are carbonated soft drinks, including colas and other flavors, bottled waters, juices, and a variety of syrups and mixes.[35]

Beverage Consumers and Market Trends

The beverage manufacture and bottling industry is greatly influenced by economic and other market trends associated with consumers. Factors such as economic stability, consumer tastes and preferences, commodities prices, and seasonality are of great importance to beverage company managers, who develop and implement strategies to respond to changes in the industry.

Perhaps the most significant factor influencing food and beverage companies is economic stability. Since carbonated soft drinks are a discretionary item, sales are considerably impacted by weakness in the economy. Between 2008 and 2010 the economy was the major problem facing beverage companies like DPS, Coke and Pepsi. Intensified by the inefficiency and failure of the securities market, the U.S. found itself in one of the worst recessions in history. As unemployment rates increased and the credit market froze, consumers significantly reduced spending. Discretionary spending as a percentage of total consumer spending dropped below 16 percent, lower than it had been for over 50 years.[36]

As discretionary spending decreased, consumers turned from flavored soft drinks and colas to less expensive alternatives, including tap water. DPS CEO Larry Young explained the phenomenon, "Even though the majority of Americans are still working, the fear factor that has gripped the nation is having a significant impact on consumer psychology" he stated. As a result, Young suggested that shoppers began to actively seek out good deals, making decisions based on "product satisfaction and price."[37]

Along with influencing consumer confidence, the recession significantly increased commodity prices. Specific to the beverage industry, the prices for aluminum, natural gas, resins, corn, pulp and other commodities all increased. These types of commodities are used in the production of beverages, exerting a considerable amount of pressure on industry margins. For instance, the price of sugar on the U.S. commodity market rose from under 12 cents per pound in 2007 to 37 cents per pound in October of 2010.[38]

Several other consumer trends influence the beverage manufacture and bottling industry. Factors such as changes in demographics, health concerns and preferences, changes in lifestyle and seasonality all influence marketing and distribution methods. One of the most significant trends affecting the beverage industry is an increased concern about health and wellness. As consumers reduce caloric intake and look for products richer in vitamins, the less-healthy sectors of the beverage industry are expected to shrink.[39] As soft drink sales decline, however, demand for healthier alternatives like low or no calorie soft drinks and noncarbonated drinks such as sports drinks, ready-to-drink teas and flavored and regular bottled water are projected to grow.[40] Through 2013, bottled water was projected to grow by 9 percent, ready-to-drink teas by 24 percent, and flavored and functional waters by 71 percent.[41]

Additional consumer trends of significance to the industry are seasonality and changing demographics. Relative to seasonality, beverage sales tend to be higher during the summer months and holidays. Sales are slower during the winter months and fluctuate somewhat with the weather. With regard to demographics, the most significant changes in the U.S. have to do with the prevalence of Baby Boomers and growth in the Hispanic population.[42]

Market Channels

Although the final consumer pulls demand for the beverage industry, beverage companies' direct customers are bottlers/distributers and retailers. Building strong relationships with these customers is an important part of succeeding in the beverage industry.

Bottling and distribution companies buy beverage concentrates from beverage brand companies, from which they manufacture, bottle, and distribute finished beverages. Additionally, bottlers manufacture and distribute syrups and mixes used in soda fountains for the foodservice industry. Major beverage bottling companies include Coca-Cola Enterprises, PepsiAmericas, the Pepsi Bottling Group, and the Dr Pepper/Snapple Bottling Group. For DPS, a substantial portion of net sales in beverage concentrates is generated through bottlers not owned by the company. As much as two-thirds of DPS volume in concentrates is sold to third party bottlers. Some of these are owned by competitors such as PepsiCo and Coke. In 2010, 71 percent of Dr Pepper volumes were distributed through Coca-Cola- and PepsiCo-affiliated bottlers.[43] Productive relationships with these bottlers are possible because of the strength and position of the Dr Pepper brand.

Retail companies buy finished beverages from distributers for mass merchandise and sale to the final consumer. Recent trends in the industry have caused many retailers to consolidate, resulting in a smaller number of large, sophisticated retailers with more buying power. Major retailers associated with the beverage industry include Wal-Mart, Target, Kroger, SuperValu and Safeway. In addition to these retailers, beverage manufacturers also depend greatly on foodservice customers, which buy syrups for fountain drinks. Major foodservice companies include McDonalds, Burger King, and Yum! Brands like KFC, Pizza Hut and Taco Bell.[44]

The Competition

The beverage manufacture and bottling industry is highly competitive and constantly shifting to respond to changes in consumer tastes and preferences. Competitive position is most effectively attained through brand recognition, based on factors such as price, quality, taste, selection, and availability. Major competitors in the manufacturing segment include the Coca-Cola Company (Coke), PepsiCo, Inc. (Pepsi), Nestlé, S.A., and Kraft Foods, Inc. Major competitors in the bottling and distribution segment include Coca-Cola Enterprises, Pepsi Bottling Group, and numerous smaller bottlers and distributors.[45]

Relative to the competition, DPS is the third largest beverage business in North America, behind Coke and Pepsi, who collectively account for 63 percent of the sales in the industry.[46] According to analysts, part of the reason that DPS is so much smaller than its competitors in the U.S. can be attributed to the spinoff of DPS from Cadbury in 2008. Taking advantage of the company's position post spinoff, Coke and Pepsi had a significant head start on acquiring healthier juices, teas, and enhanced waters. Analysts suggest that DPS had insufficient resources at the time to keep up with competing acquisitions.[47]

Besides problems gaining overall market share in the U.S., DPS has also had difficulty competing internationally. The company generates about 89 percent of its revenues in the U.S. market, 80 percent of which comes from carbonated soft drinks. In comparison, Coke collects about 74 percent of its sales outside of North America, and Pepsi generates over 40 percent of its sales internationally. Still, DPS management has expressed an intention to maintain its focus on North America.[48]

In general, while DPS has strong brands and distribution, the company has struggled to compete head-to-head with industry leaders Coke and Pepsi. Based in Atlanta, Georgia, the Coca-Cola Company (Coke) is the largest manufacturer, distributer, and marketer of nonalcoholic beverage concentrates and syrups in the world. Coke markets four of the world's top five carbonated soft drinks—Coca-Cola, named the world's most valuable brand, Diet Coke, Fanta and Sprite. Coke also owns and licenses nearly 500 other brands, including diet and light beverages, enhanced waters, juice drinks, teas, coffees, and sports and energy drinks. Coke is primarily a brand owner and manufacturer, selling its concentrates and syrups to bottling and canning companies, fountain wholesalers and retailers, and distributers.[49]

As outlined on its company website, the three-phase mission of Coke is "to refresh the world, to inspire moments of optimism and happiness, and to create value and make a difference."[50] Consistent with its mission statement, Coke maintains an international focus, marketing and distributing its products in over 200 countries throughout the world.[51] To facilitate its international focus, Coke spends a significant amount of capital on technological development and marketing. For example, Coke introduced a new fountain beverage machine that used "micro-dosing" technology to dispense over 120 beverages from one machine. The machine takes up the same space as the eight-valve machine currently being used by foodservice businesses.[52] The combination between international sales, technology development and marketing has made Coke one of the most widely recognized and profitable companies in the world. (For selected financial data on the Coca-Cola Company, see Exhibit 4)

PepsiCo, Inc., another huge DPS competitor, is based in North Carolina and is a global leader in beverage, snack and food manufacture and distribution. Pepsi is divided into three major business units—PepsiCo Americas Foods, PepsiCo Americas Beverages, and PepsiCo International. These business units manufacture, market and sell a variety of convenient, salty, sweet and grain-based snacks, carbonated soft drinks and noncarbonated beverages, and other foods in approximately 200 countries throughout the world. Some of the company's key brands include its flagship Pepsi, Pepsi One and Diet Pepsi, Mug, Mountain Dew, Sierra Mist, Frito-Lay, Doritos, Cheetos, Tostitos, Sunchips, SoBe and SoBe Lifewater, Propel, Quaker, and Tropicana. Pepsi also holds licenses to use trademarks for many valuable products, including Lipton, Starbucks, Dole and Ocean Spray.[53]

Pepsi's goal is to be the world's best consumer products company in convenient foods and beverages. The company seeks to accomplish its goal by producing "financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate." An important part of Pepsi's mission statement is its socially responsible approach, concentrating on improving all aspects of the world in which it operates—the environment, societies, and economies.[54] The company puts its vision into action through meeting consumer needs, environmental stewardship initiatives, society benefits, employee support and organizational programs, and operations that increase shareholder value.[55]

Like Coke, Pepsi strategies maintain an international focus and include improvements in product development and marketing. The company has recently made significant changes to packaging, redesigning Pepsi brand products, Sierra Mist and others. Additionally, Pepsi introduced a new advertising campaign that put a modern twist on the "Pepsi Generation" campaign used in the 60s. The campaign combined footage from the old advertisements with current images to express the new tagline "Every Generation Refreshes the World."[56] By focusing on social responsibility and diversifying its brand and product portfolio, Pepsi has become one of the most successful global food and beverage companies in history. (For selected financial data on the PepsiCo, Inc., see Exhibit 4)

NEXT MOVES

Moving into 2011, Larry Young had many decisions to make. While he was pleased by the performance of many of the company's individual brands, Young knew that he needed to cut costs in order to improve profit margins. However, DPS could not afford to make any cuts that would damage its strong brands or push away consumers. Furthermore, his rivals, Coke and PepsiCo, were experiencing much higher performance levels than DPS and were not going to stand still. How can the company continue to grow at levels that will satisfy shareholders? To what extent should acquisitions, joint ventures, licensing agreements, and/or internal growth tactics be pursued? Should DPS diversify into other product markets? What other growth options are available to the company? Should any products or brands be divested? Young had a lot to think about.

EXHIBIT 1: BOARD OF DIRECTORS

Wayne R. Sanders
Chairman

Mr. Sanders has served as a director since May 2008 and is Chairman of the Board of Directors and chairman of the nominating and corporate governance committee. Mr. Sanders served as the Chairman and the Chief Executive Officer of Kimberly-Clark Corporation from 1992 until his retirement in 2003. Mr. Sanders currently serves on the boards of directors of Texas Instruments Incorporated and Belo Corp. He previously served on the board of directors of Adolph Coors Company. Mr. Sanders is also a National Trustee and Governor of the Boys & Girls Club of America and was a member of the Marquette University Board of Trustees from 1992 to 2007, serving as Chairman from 2001 to 2003.

Larry D. Young
President, Chief Executive Officer and Director

Larry Young is president and chief executive officer for Dr Pepper Snapple Group, Inc. (NYSE: DPS), one of the world's leading beverage companies. Larry was named president and chief executive officer in October 2007 after serving as president and chief operating officer for the company's Bottling Group division and led the spinoff of Dr Pepper Snapple Group from Cadbury Schweppes plc in May 2008. Larry joined the company in April 2006 through its full acquisition of Dr Pepper/Seven Up Bottling Group, where he had been president and CEO since 2005. As head of operations, he played a central role in helping to create a new business model for a fully integrated beverage company. In his 30-year career, Larry has produced and sold virtually every type of beverage in the Americas and across Europe and Russia. He previously served more than 25 years in the Pepsi system, most recently with PepsiAmericas and before that with Pepsi-Cola General Bottlers, where he began on a route truck and worked his way to President and Chief Operating Officer.

John L. Adams
Director

Mr. Adams has served as a director since May 2008. Mr. Adams served as Executive Vice President of Trinity Industries, Inc. from January 1999 to June 2005 and held the position of Vice Chairman from July 2005 to March 2007. Prior to joining Trinity Industries, Mr. Adams spent 25 years in various positions with Texas Commerce Bank, N.A. and its successor, Chase Bank of Texas, National Association. From 1997 to 1998, he served as Chairman and Chief Executive Officer of Chase Bank of Texas. Mr. Adams currently serves on the boards of directors of Trinity Industries, Inc. and Group 1 Automotive, Inc., where he has served as chairman since April 2005. He previously served on the boards of directors of American Express Bank Ltd. and Phillips Gas Company.

Terence D. Martin
Director

Mr. Martin has served as a director since May 2008 and serves as chairman of the audit committee. Mr. Martin served as Senior Vice President and Chief Financial Officer of Quaker Oats Company from 1998 until his retirement in 2001. From 1995 to 1998, he was Executive Vice President and Chief Financial Officer of General Signal Corporation. Mr. Martin was Chief Financial Officer and Member of the Executive Committee of American Cyanamid Company from 1991 to 1995 and served as Treasurer from 1988 to 1991. Since 2002, Mr. Martin has served on the board of directors of Del Monte Foods Company and currently serves as the chairman of its audit committee.

Pamela H. Patsley Director
Ms Patsley has served as a director since May 2008. Ms. Patsley served as Senior Executive Vice President of First Data Corporation from March 2000 to October 2007 and President of First Data International from May 2002 to October 2007. She retired from those positions in October 2007. From 1991 to 2000, she served as President and Chief Executive Officer of Paymentech, Inc., prior to its acquisition by First Data. Ms. Patsley also previously served as Chief Financial Officer of First USA, Inc. Ms. Patsley currently serves on the boards of directors of Molson Coors Brewing Company and Texas Instruments Incorporated, and she is the chair of the audit committee of Texas Instruments Incorporated.

Ronald G. Rogers Director
Mr. Rogers has served as a director since May 2008. Mr. Rogers has served in various positions with Bank of Montreal between 1972 and 2007. From 2002 to 2007, he served as Deputy Chair, Enterprise Risk & Portfolio Management, BMO Financial Group and from 1994 to 2002, he served as Vice Chairman, Personal & Commercial Client Group. Prior to 1994, Mr. Rogers held various executive vice president positions at Bank of Montreal.

Jack L. Stahl Director
Mr. Stahl has served as a director since May 2008 and serves as chairman of the compensation committee. Mr. Stahl served as Chief Executive Officer and President of Revlon, Inc. from February 2002 until his retirement in September 2006. From February 2000 to March 2001, he served as President and Chief Operating Officer of The Coca-Cola Company and previously served as Chief Financial Officer and Senior Vice President of The Coca-Cola Company's North America Group and Senior Vice President of The Coca-Cola Company's Americas Group. Mr. Stahl currently serves on the board of directors of Schering-Plough Corporation.

M. Anne Szostak Director
Ms. Szostak has served as a director since May 2008. Since June 2004, Ms. Szostak has served as President and Chief Executive Officer of Szostak Partners LLC, a consulting firm that advises executive officers on strategic and human resource issues. From 1998 until her retirement in 2004, she served as Executive Vice President and Corporate Director — Human Resources and Diversity of FleetBoston Financial Corporation. She also served as Chairman and Chief Executive Officer of Fleet Bank — Rhode Island from 2001 to 2003. Ms. Szostak currently is a director of Belo Corp., ChoicePoint, Inc., Tupperware Brands Corporation and Spherion Corporation, where she serves as chair of the compensation committee.

Mike Weinstein Director
Mr. Weinstein was elected as a director in February 2009. Mr. Weinstein is a co-founder of INOV8, which specializes in developing and commercializing innovative beverage products such as HYDRIVE energy drink. Mr. Weinstein served as president and chief operating officer of A&W Brands, Inc., in the early '90s and later as chief executive officer of Snapple Beverage Group, which was acquired by Cadbury Schweppes in 2000. During his career, he also has overseen such brands as RC Cola, Squirt, Mistic, Stewart's and Vernor's and has led global innovation and business development teams. Mr. Weinstein was named to Beverage World magazine's Hall of Fame in 2000 and received Beverage Digest's prestigious "Visionary Award" in 2004.

Source: 2011, Board of directors, http://investor.drpeppersnapple.com/directors.cfm, March 3.

EXHIBIT 2: STRATEGY

The key elements of our business strategy are to:

Build and enhance leading brands. We use an on-going process of market and consumer analysis to identify key brands that we believe have the greatest potential for profitable sales growth. We intend to continue to invest most heavily in these key brands to drive profitable and sustainable growth by strengthening consumer awareness, developing innovative products and brand extensions to take advantage of evolving consumer trends, improving distribution and increasing promotional effectiveness.

Focus on opportunities in high growth and high margin categories. We are focused on driving growth in our business in selected profitable and emerging categories. These categories include ready-to-drink teas, energy drinks and other functional beverages. We also intend to capitalize on opportunities in these categories through brand extensions, new product launches and selective acquisitions of brand and distribution rights.

Increase presence in high margin channels and packages. We are focused on improving our product presence in high margin channels, such as convenience stores, vending machines and small independent retail outlets, through increased selling activity and investments in coolers and other cold drink equipment. We also intend to increase demand for high margin products like single-serve packages for many of our key brands through increased promotional activity and innovation.

Leverage our integrated business model. We believe our integrated brand ownership, bottling and distribution business model provides us opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our bottling and distribution businesses. We intend to leverage our integrated business model to reduce costs by creating greater geographic manufacturing and distribution coverage and to be more flexible and responsive to the changing needs of our large retail customers by coordinating sales, service, distribution, promotions and product launches.

Strengthen our route-to-market through acquisitions. The acquisition and creation of our Bottling Group is part of our longer-term initiative to strengthen the route-to-market for our products. We believe additional acquisitions of regional bottling companies will broaden our geographic coverage and enhance coordination with our large retail customers.

Improve operating efficiency. We believe our recently announced restructuring will reduce our selling, general and administrative expenses and improve our operating efficiency. In addition, the integration of recent acquisitions into our Bottling Group has created the opportunity to improve our manufacturing, warehousing and distribution operations.

Source: 2011, Strategy, http://investor.drpeppersnapple.com/index.cfm?pagesect=strategy, March11.

EXHIBIT 3: FINANCIAL STATEMENTS FOR DR PEPPER SNAPPLE GROUP

DR PEPPER SNAPPLE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2010 , 2009 and 2008

	For the Year Ended December 31,		
	2010	2009	2008
	(In millions, except per share data)		
Net sales	$ 5,636	$ 5,531	$ 5,710
Cost of sales	2,243	2,234	2,590
Gross profit	3,393	3,297	3,120
Selling, general and administrative expenses	2,233	2,135	2,075
Depreciation and amortization	127	117	113
Impairment of goodwill and intangible assets	—	—	1,039
Restructuring costs	—	—	57
Other operating expense (income), net	8	(40)	4
Income (loss) from operations	1,025	1,085	(168)
Interest expense	128	243	257
Interest income	(3)	(4)	(32)
Loss on early extinguishment of debt	100	—	—
Other income, net	(21)	(22)	(18)
Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries	821	868	(375)
Provision for income taxes	294	315	(61)
Income (loss) before equity in earnings of unconsolidated subsidiaries	527	553	(314)
Equity in earnings of unconsolidated subsidiaries, net of tax	1	2	2
Net income (loss)	$ 528	$ 555	$ (312)
Earnings (loss) per common share:			
Basic	2.19	2.18	(1.23)
Diluted	2.17	2.17	(1.23)
Weighted average common shares outstanding:			
Basic	240.4	254.2	254.0
Diluted	242.6	255.2	254.0
Cash dividends declared per common share	0.90	0.15	—

DR PEPPER SNAPPLE GROUP, INC.

CONSOLIDATED BALANCE SHEETS
As of December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
	(In millions except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 315	$ 280
Accounts receivable:		
Trade, net	536	540
Other	35	32
Inventories	244	262
Deferred tax assets	57	53
Prepaid expenses and other current assets	122	112
Total current assets	1,309	1,279
Property, plant and equipment, net	1,168	1,109
Investments in unconsolidated subsidiaries	11	9
Goodwill	2,984	2,983
Other intangible assets, net	2,691	2,702
Other non-current assets	552	543
Non-current deferred tax assets	144	151
Total assets	$ 8,859	$ 8,776
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 851	$ 850
Deferred revenue	65	—
Current portion of long-term obligations	404	—
Income taxes payable	18	4
Total current liabilities	1,338	854
Long-term obligations	1,687	2,960
Non-current deferred tax liabilities	1,083	1,038
Non-current deferred revenue	1,515	—
Other non-current liabilities	777	737
Total liabilities	6,400	5,589
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, $.01 par value, 800,000,000 shares authorized, 223,936,156 and 254,109,047 shares issued and outstanding for 2010 and 2009, respectively	2	3
Additional paid-in capital	2,085	3,156
Retained earnings	400	87
Accumulated other comprehensive loss	(28)	(59)
Total stockholders' equity	2,459	3,187
Total liabilities and stockholders' equity	$ 8,859	$ 8,776

DR PEPPER SNAPPLE GROUP, INC.

SEGMENT RESULTS
For the Years Ended December 31, 2010 and 2009

	For the Year Ended December 31,	
	2010	2009
Net sales		
Beverage Concentrates	$ 1,156	$ 1,063
Packaged Beverages	4,098	4,111
Latin America Beverages	382	357
Net sales	$ 5,636	$ 5,531
Segment operating profit (SOP)		
Beverage Concentrates	$ 745	$ 683
Packaged Beverages	536	573
Latin America Beverages	40	54
Total SOP	1,321	1,310
Unallocated corporate costs	288	265
Other operating expense (income), net	8	(40)
Income from operations	$ 1,025	$ 1,085
Interest expense, net	125	239
Loss on early extinguishment of debt	100	—
Other income, net	(21)	(22)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$821	$868

Source: Dr Pepper Snapple Group, Inc. 2010 Report 10-K

EXHIBIT 4: SELECTED COMPETITOR FINANCIAL DATA *(in millions)*

Coca-Cola Company and Subsidiaries

Year Ended December 31,	**2010**	**2009**	**2008**
Net Operating Revenues	$ 35,119	$ 30,990	$ 31,944
Cost of Goods Sold	12,693	11,088	11,374
Selling, General and Administrative Expenses	13,158	11,358	11,774
Other Operating Charges	819	313	350
Operating Income	8,449	8,231	8,446
Net Income After Taxes	11,809	6,824	5,807
Total Current Assets	21,579	17,551	12,176
Total Assets	72,921	48,671	40,519
Total Current Liabilities	18,508	13,721	12,988
Total Long Term Debt and Other Liabilities	23,096	9,604	7,059
Total Equity	31,317	25,346	20,472

Note: Much of the difference between operating income and net income in 2010 is attributable to a gain from reclassifying the value of the company's previous investment in a business it acquired during the year. The acquisition is also reflected by the large increase in total assets in 2010.

PepsiCo, Inc.

Fiscal Years Ended December xx, 26 and 27	**2010**	**2009**	**2008**
Net Operating Revenues	$ 57,838	$ 43,232	$ 43,251
Cost of Goods Sold	26,575	20,099	20,351
Selling, General and Administrative Expenses	22,814	15,026	15,877
Amortization of Intangible Assets	117	63	64
Operating Profit	8,332	8,044	6,959
Net Income After Taxes	6,320	5,946	5,142
Total Current Assets	17,569	12,571	10,806
Total Assets	68,153	39,848	35,994
Total Current Liabilities	15,892	8,756	8,787
Total Long Term Debt and Other Liabilities	30,785	13,650	14,625
Total Equity	21,476	17,442	12,582

Sources: Coca-Cola Company 2009 and 2010 Report 10-K; PepsiCo, Inc. 2009 and 2010 Annual Reports.

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