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CASE 8
Dr Pepper Snapple Group 2011: Fighting to Prosper in a Highly Competitive Market

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Larry Young, President and CEO of Dr Pepper Snapple Group, Inc. (NYSE: 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 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 reduce 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 owned by Cadbury Schweppes, 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 revenue growth in 2010 of 13.3 percent, 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 manufacturing 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, eventually forming 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 Morrison and Lazenby started has become one of the largest beverage manufacturers in North America. DPS's current product portfolio 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 a 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

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flavors. Cadbury finally purchased Dr Pepper/Seven UP, Inc., in 1995, 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 was intended to help Quaker strengthen its beverage division, which at the time included Gatorade. However, after failing to successfully integrate the contrasting corporate cultures, in 1997 Snapple was acquired by Triarc Companies, an investment company with a history of purchasing struggling assets.[5] It was from Triarc that Cadbury Schweppes ultimately acquired Snapple.

Three years after acquiring 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 and established its own bottling and distribution network. 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.[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 a market share of over 40 percent in the non-cola carbonated soft drink category.

The Company

Dr Pepper Snapple Group, Inc. is a major beverage company with an integrated business model including brand ownership, bottling, and distribution of nonalcoholic beverages in the United States, 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 spin-off of Cadbury in May 2008, the company has established itself as the top non-cola carbonated soft drink company in the United States, 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 worked for more than 25 years in the PepsiCo 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 (Marty) Ellen joined DPS in April 2010. He has 25 years of experience as chief financial officer in companies in the 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 took place at Whitman Corporation, owner of Pepsi-Cola General Bottlers, where he helped realign and expand Pepsi bottling territories in the United States 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 board's responsibility is to manage the business affairs of the company, including regular evaluation of strategic direction, policies and procedures, and top management. It 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, there are eight more members of the board of 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).

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