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 seeks to recover lost distribution in its line of 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 separating from Cadbury. 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—its packaging and look, taste, and the marketing thrust associated with the brand. Snapple presented new formulations for its teas to increase consumer interest, and began to focus on the product's health benefits. DPS also started distributing 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 1980s and early 1990s.[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 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 United States. 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 (units in which soft drinks are stored and kept cool) 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 New York and PepsiAmericas in Minnesota 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, in 2010, DPS signed a $715 million deal that gives Coke the rights to distribute Dr Pepper and Canada Dry in the US.[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 networks and 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 remainder split between warehouse direct and food-service 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, midwest, 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, Illinois and distributes to Chicago and its surrounding areas. The facility is about one million square feet in size and employs 1,250 people, of which 750 work on site and the rest in the field. On-site operations consist of nine manufacturing lines, including plastic bottle, can, and hot-fill glass lines for DSD distribution, and a bag-in-box line for soda fountains at food-service 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 that are stored in the company's 25-dock warehouse until they are loaded onto one of the 150 trucks 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.

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 it calls Rapid Continuous Improvement (RCI). According to Ellen, "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's financial performance since the spin-off has exceeded analysts' expectations. While many of the company's brands experienced moderate to high growth in 2010, sales of Sunkist, 7UP, and A&W declined, leading to overall company sales of $5.6 billion, up about 2 percent from 2009. Even so, 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 flow from operations during 2010 and 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 manufacturing 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. Carbonated soft drinks, including colas and other flavors, bottled waters, juices, and a variety of syrups and mixes, are this industry's major products.[35]

Beverage Consumers and Market Trends

The beverage manufacturing and bottling industry is greatly influenced by economic and other market trends associated with consumers. Factors such as