

# BEVERAGE DIGEST

Premier Issue

May 21, 1982

Dear Executive:

CONCENTRATE PRICES, 40 BRANDS, FIRST TIME EVER. Beginning with basics. This issue contains original research on concentrate pricing structure, 40 major soft drink brands. Data includes newest unit price, 12 oz. yield, sugar required, cost per 12 oz. case. Also percentage increase over last known price. Numbers reflect coverage 22 regular drinks, 18 sugar-free beverages -- plus miscellaneous data 10 additional brands -- assembled in one listing for first time. See inside: The Green Sheet.

COKE IS IT WITH CHERRY, LEMON, CHOCOLATE AT 7-ELEVEN. Early this month Pepsi scored huge parity coup at 7-Eleven's 7000 convenience stores, obtaining placement next to previously exclusive Coke dispensers. Atlanta quickly responds. Coke USA places order for special plastic fittings, 2 liter syrup containers -- packed in sets of three -- shipped to 5000 - 7000 7-Eleven fountains, delivery early July. Stresses rush aspect, offers to underwrite mold cost of previously machine-tooled fittings. Why? Answer is new convenience syrup program: "Coke with Cherry," "Coke with Lemon," "Coke with Chocolate." For first time -- since aborted Chime project in the early 1960's -- Coca-Cola USA giving tacit non-packaged goods approval to add-on flavorings for Coke brand. Don't mess with Dyson Warbucks.

Several broad implications. 1) Already booming, profitable fountain market -- especially new, virtually overnight, convenience segment -- set for even bigger push. Dr Pepper, RC also showing penetration. Bulk syrup approaching 25% total volume. 271,000 post-mix units now, up from 145,000 in 1975. Growing at 5.3% compound rate. 2) Coke's tactical move foreshadows new aggressive offense to thwart Pepsi's long-awaited fountain push. 3) Also, underscores industry's continuing tilt to segmentation.

NO SHRINK MECHANICAL PLASTIC CLOSURE IN FIRST USE. Polypropylene pilfer-proof closure applied mechanically without shrink tunnel. HC Industries concept scores well since April 15, at Coke Lexington, Ky. "Mechanical Band" -- working name -- boosts closing speeds from 400 to 470 bpm on 16 oz. Plasti-Shield. VP-Operations Dave Boulden: "I love it. It's competitively priced, gives consumer easy removal, a tighter reseal and I believe our product liability insurance will go down with this." HC's patent, two years in development, has 24 pennant-shaped wings in series inside closure. Pointing to bands' center on 45° angle, wings run clockwise, lock on application. Closure applied via modified Alcoa capper with Zalkan heads, Fowler Products design. Look for other shrinkless plastic bands -- from domestic, European, Asian producers -- causing closure price reductions.

WESTINGHOUSE 7-UP EXEC. BLASTS PET MARKETING. VP Norm Nelson urges more technical input in marketing situations, now mostly dictated by sales types. Terse, tough speech at Society of Soft Drink Technologists annual meeting. "We must stand behind integrity of products we sell and the ½ liter plastic package hurt our integrity with limited 4-8 week shelf-life." "Bottlers," he said, "were liars or naive and franchise executives were stupid or naive" to agree to ½ liter package with shortened shelf-life. "Franchise companies felt protected, because they had a signed piece of paper." He added, "it should have been written on toilet paper, because that's what it was worth and that's also where we'll go if more care is not used in the future."

In related item: Some Coke bottlers overcarbonating ½ liter PET to 4.3 volumes, compensating for shelf-life carbonation loss.

MERGERS AND ACQUISITIONS. \$417.5 million for Associated-Coke paces much ado on buys/swaps/negotiations. On Coke side: If Associated broken up, Rochester prominent among contenders for Albany, Syracuse segments. Oodles of candidates for rest. Spec-trum adds Dayton to Cincinnati/Mid-Atlantic group (D.C., Baltimore and Richmond markets). On Pepsi side: Attempt to purchase NY -- by Ian Wilson, ex-Exec. VP Coke USA -- as part of Borden buy/swap falls apart. Other PBG-NY offers pending. PBG buys Pueblo, Amarillo, Santa Fe from Occhiato; swaps for Longview, Texas with Mid-South -- Al Burke's group -- as part of Little Rock exchange. Mid-South, having wrapped up New Orleans (\$33 million), Little Rock, Jonesboro, Ark. now finalizing Memphis, Tenn. MEI buys Grand Junction, Colo. (said to be \$12 million). Denver Pepsi, business never better, reportedly rejects PBG's \$85 million. Several talkers with General Cinema re mid-west group, deal on hold. If Ashland Oil acquires IC, look for soft drink business sale. Pepsi interested, it says here, in Bubble-Up, Chicago Pepsi operations. Harold Honickman (Pepsi Pennsauken, NJ; Canada Dry, Phila.) acquiring specialty producer, Good-O Beverages, NY.

Good financial formula for plant valuation: Focus on multiple of after-tax earnings. Better, use multiple of before-tax cash flow. Best, ask for lots, settle for more. Coke owned plants -- without leveraged/minority interest operations -- now produce 11-12% of product in US. With minority/leveraged groups, estimate approaches 20%; Pepsi's close to 30%; Dr Pepper at about 20%.

THE SMALL BOTTLER, THE LARGE MERGER. With recent frenzy of plant sales, prices jumping like arcade-game scores, a pair of merger thoughts. First, recap of FTC action, resulting legislation from economics professor Barry Duman, W. Texas State University. Why he asks did independent bottlers give legislation support when signs pointed to their elimination as competitors? He reasons they knew they were doomed and were "guarding the capitalized value of their real estate and franchise," and not, most emphatically, supporting the "survival" argument. He sees four consequences of Interbrand Act: In-creasing pressure from "predatory conglomerates," parent firms, on small bottler; even-tual soft drink sale from central distribution points, as plant multitude is unattractive to franchise firms; severe limitations on new beverage line introductions; and extension of piggy-backing activities of strong bottlers "almost without limit."

Secondly, what games are beverage merger legal-beagles playing? Not Rubick's cube, but Hefindahl's Index, to evaluate extent of competition, potential government response to future mergers. Index concept squares market-share of each producer, total provides Justice Department's anti-trusters with potential action guidelines. At Index of 1400 suspicions are raised, at 1600 it's battle stations. Approaching first borders of danger level: liquor industry. Justice says formula also applicable in specific markets, used in Strohs' Winston-Salem/Memphis decision.

JUICE/DAIRY PRODUCERS PLANNING FRANCHISE. Group holds Chicago meeting to discuss/evaluate opportunity. Concept: establish national franchise for those juice/dairy drinks with strong regional following. Use existing dairy delivery fleets/food brokers for distribution. Use aseptic packaging. Place product with soft drinks.

THE CAFFEINE WARS. 7-Up: Caffeine-free strategy shows gains. Sample: Birmingham, Ala. Jim Lee III: "Brand was flat or down for past four years. Since 'caffeine-free campaign' its shot straight up." In two months St. Louis reports 10% increase in 7-Up brand sales vs. year ago. Company is looking for 5 - 10% volume gain in 1982. Royal Crown: Decaffeinated RC franchises cover 93% of population. Changes made in P-O-P to differentiate from RC 100. New grabber: "A great new cola, it's not a diet, come on and try it." Pepsi: Continues focus groups in NY State. Tests unlabelled caffeine-free drink in Phoenix. Coke: Name, package, ad campaign ready. Status: watchful waiting.

On the legislative front. Look for FDA to put off immediate caffeine action on both GRAS and prior sanction decisions. Also, wide-spread and growing support for rapid enactment of new food safety law/Hatch, Gore bills. Both ammend Delaney, call for risk/benefit assessments.

NORTHEAST TRANSSHIPPING ACCELERATING, NEW RESPONSES AFOOT. Bootlegged cases at

all-time high. In NY market circa 9-10 million cases transshipped. Curtailment hampered by lack of penalties with teeth. Current solutions include wrist-slapping via franchise warning letter, syrup cutback threats, franchise cancellation threats. Only threats to date, no actions. Look for new efforts including: self-policing by regional groups, self-policing by bottler franchise associations, establishment of penalty system encompassing peer arbitration. Also, look for intensified parent investigation to cut into practices. One growing possibility: actual termination of franchise. Move designed to put muscle into threats, to underscore situations seriousness, to raise bottler awareness. Some operators in past not aware goods resold out of franchise. Ultimate effect of transshipping: ruination of franchise agreement.

Added damages: In forced-deposit states transshipping leads to negative margins of \$1.44 a case. Retailer buys alien goods, adds deposit sticker, bottler lays out \$1.44. Vicious cycle ensues: negative margins + deposit bill cost increases = further prices increases = further transshipping = further negative margins.

REGIONAL ASPECTS TO US PACKAGING DIRECTIONS. While recent trend lines broadly publicized (cans down, refillables down, plastic up, 1-ways up) notable anomalies exist in specific markets. Ergo: refillables in decline on national basis (from 37.8%, 1978 down to 30.7%, 1980) but package shows increase share in Northeast (up 7.4%), West Central (up 3.2%) and Western markets (up 4.2%) in comparable period. Likewise -- reports Beverage Data Bank, in 200-page statistical abstract of soft drink industry -- 1-way glass, a packaging growth factor nationally (up from 10.8% to 14.2%) lost percentage share in East Central (down .4%) and Pacific regions (down 2.6%). Also, while bulk share soared nationally it declined .3% in the Northeast. Report also has data on brand performance, advertising, distribution channels.

ONE WAY TO KEEP LID ON DIRECT LABOR COSTS. Maximize capital resources with new on-stream technology. No matter what size operation, technology available and worthy in terms of productivity gains. But, caution, add new technology only as part of total planning: Space-age widgets worthless amid horsecollars.

Some items to consider: Critical angle refractometer, in line - PH-meter, chlorine and alkalinity detector, infra-red absorption system. New microprocessing system controls all facets of line, records all down times. Readouts provide data where product/packageing accepted/rejected on line. Instantaneous analysis spots melons. Tells shift productivity. Daily, weekly, quarterly printouts. Also, look into continuous batching. 7-Up LA VP/technical wizard Tony Meushaw: "If you don't develop these systems, you'll be left behind."

New technological innovations point up demand for trained technicians in microprocessing and electronics. Choices now: train in-house or steal them. Enlightened bottler groups hiring out of two-year technical colleges. Look for/insist upon suppliers seminars. Also, look for expanded parent firm training programs. NSDA Technical Director Harry Korab: "Several plants operate too thin. They need more back-up guys to learn the technical jobs, more in-plant floaters." Korab knows his beans. His back-up lab assistants over the years: Meushaw, Schweppes' Lineweaver, Dr Pepper's Grier, Shasta's Lowery, and Wometco's Sampson.

CANNED SOFT DRINKS IN EUROPE SHOW GAINS. Canned share of total European market at 10.5% (vs. 9.7% in 1980, 7.7% in 1977). German can fillers -- Coke in Essen, Dorsten; Pepsi in Frankfurt -- operating at remarkable 163% efficiency. European canned retail prices steep. In Germany, Coke 1 liter N/R 89 DM vs. .33 cl can 49 DM. In England, 1 liter returnable Coke 40½ p. vs. 19½ p. for can. Highest percentage can consumption -- says Canadean Ltd. analysis -- in UK, Italy, Sweden. Germany, UK, Italy make up 80.6% of Europe's can market. French have huge can growth, sales up 22%, Sunkist largest brand after Coke.

REVERSE VENDING COMPETITORS VIE FOR DOMINANCE. Competition heating for potential 50,000 unit market. Interest from deposit states, environmental groups, concerned citizenry. Latest entry redeems dented/virgin used aluminum cans for deposit, recycling cash or cents-off coupon. Cans inserted in standard looking vender. Unit electronically

senses/responds to aluminum mass, noiselessly crushes/stores can in 2 seconds. Coke San Diego places units at Big Bear chain. Variable payout in coins or discount chits for merchandise. Units installed gratis by beverage producer. Depending on program, supermarket reimbursed expense monies plus 10% total recycling value. Manufactured by Vendo, developed by Envipco, Inc. Multitude of other manufacturers to come. Other current players include Coinbak -- selling units to A&P -- Golden Goat, Alcoa's Kangaroo and unit from Coors.

A & W PULLS MARKET PLUM. BMI drops Barrelhead, adds A&W. 2-3 million case potential in 90% of Ohio, several counties in W. Va., Ky.

BUYERS AND SELLERS. Available: US production/distribution rights to established European product line. Fruit based, light tasting, naturally low in calories. Immensely successful in N. Europe. Wanted: Franchise firm executives seek plant in major market. Emphasis on major. Principals only. Will forward letters.

GIVEN SAME TERRITORY, SAME PRODUCTS, WHO'LL DO BEST? 63 bottlers, franchise execs, suppliers questioned. Response, by far, Ed O'Reilly, Coke NY President/COO. Peers, competitors agree, in country's toughest market, O'Reilly -- former route driver -- improves unit penetration, promotional effectiveness, labor/distributor relations. With 31 plants in 7 states, 3000 people, Coke NY sells circa 65 million cases.

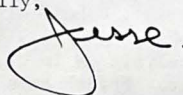
O'Reilly on management: "Pick the right people. Challenge them with authority and modest accountability. Then you don't have to motivate them. Personal ambition, wanting new responsibilities will motivate them. I motivate in an underwhelming way." How to pick right people? "From an MBA or a dropout, I look for street smarts, the key to success. The primary ingredient is common sense, the ability to read the buyers' signals, to understand subordinates' needs and, especially, to be able to relate to all levels, educated and non-educated. Honesty is the key to communication. I also look for general intelligence, initiative and commitment to the work ethic."

Turn-offs: "Misrepresentation or overpromising. A little embellishment is acceptable. But overtime embroidery, too much puffery or intellectual dishonesty is counterproductive. It shows the individual can't deal with reality." Personal view: "The market place is my report card. In NY if you're wrong, you know it fast." Choice of good bottler manager? "Bart Brodtkin." Franchise manager? "Scully and Dyson."

SPECIAL TOUR TO BREWEX/PAKEX/ENGLAND. 5th consecutive year, I'll host overseas beverage tour. Coming up: London and 2nd largest beverage/packaging show in world at Birmingham, England. Show uniquely combines Int'l Brewing, Bottling & Allied Trades (Brewex) and Int'l Packaging Exhibition (Pakex) under one roof. Last expo -- 390 exhibitors -- drew 38,000 from 20 countries at mammoth National Exposition Centre, 1 hr. from London. Virtually all beverage machines, packages and systems shown. Show dates, April 25-29, 1983; trip dates, April 22-May 3rd. Price \$1425, via British Airways, plus 1st class British rail pass -- to Birmingham/unlimited usage throughout England -- all transfers, handling. Send letter with number in party. Side trips, extensions available. Price subject to change.

Calendar Notes: Interbev, Atlanta, Nov. 30-Dec. 2, 1982, first US multiple beverage exposition/convention. Interbrau, Munich, May 3-10, 1985 biggest beverage show in world.

Cordially,



# THE GREEN SHEET

ESTIMATED CONCENTRATE/SUGAR PRICES  
(See story page 1)

Product	Eff. Date	Per Unit Price	% Incr.	Yield 12 oz cs	Sugar lbs per cs	Per 12-ounce case		
						Conc.	Sugar @ 25c	Total
Pepsi-Cola	4-1-82	\$1084	5.0	2400	2.069	\$ .452	\$ .517	\$ .969
Diet Pepsi	4-1-82	2330	10.0	2400		.971		.971
Mtn. Dew	4-1-82	233	14.3	400	2.305	.583	.576	1.159
Coca-Cola	4-1-82	2.918	Amend	2.889		syrup		1.010
Coca-Cola	4-1-82	2.515	Non			syrup		.871
Tab	1-4-82	275.50	11.8	288.9		.954		.954
Sprite	1-4-82	139.91	17.0	234.9	1.971	.596	.493	1.089
S.F. Sprite	1-4-82	223.32	11.8	233.3		.957		.957
Fresca	1-4-82	230.98	11.4	235.4		.981		.981
Mello Yello	1-4-82	144.26	20.5	234	2.397	.616	.599	1.215
Mr. Pibb	1-4-82	127.84	17.8	221.9	2.003	.576	.501	1.077
S.F. Mr. Pibb	1-4-82	216.96	12.1	221.8		.978		.978
Dr Pepper	12-1-81	329.25	9.9	618	1.890	.532	.473	1.005
S.F. Dr Pep	9-3-81	540	12.0	618		.874		.874
CD Gin Ale	1-1-82	156	10.0	311	1.614	.502	.404	.906
CD Club Soda	1-1-82	132	10.0	249		.530		.530
Tonic Water	1-1-82	280	10.0	237	1.669	1.181	.417	1.598
Seven-Up	2-1-82	225	11.4	416.7	1.920	.540	.480	1.020
S.F. 7-Up	2-1-82	325	8.3	370		.878		.878
Royal Crown	9-28-81	44	6.0	96	2.083	.458	.521	.979
Di Rite/RC100	9-28-81	82.50	11.5	96		.859		.859
Sunkist	11-9-81	530	14.0	1000	2.433	.530	.608	1.138
S.F. Sunkist	2-8-82	163	9.4	180		.906		.906
O. Crush	10-19-81	62.37	14.0	134.2	2.254	.465	.564	1.029
Hires	10-19-81	42.15	11.1	97.5	1.969	.432	.492	.924
Squirt	12-31-81	74	7.6	115.2	1.870	.642	.468	1.110
Diet Squirt	12-31-81	90.50	N/A	115.2		.786		.786

Product	Eff. Date	Per Unit	% Incr.	Yield	Sugar	Per 12-ounce case		
		Price		12 oz cs	lbs per cs	Conc.	Sugar @ 25¢	Total
A & W	1-15-82	\$ 440	8.5	682.4	2.305	\$ .645	\$ .576	\$1.221
S.F. A & W	1-15-82	552	9.0	512		1.078		1.078
Barq's	4-1-82	68.35	7.0	131.4	2.390	.520	.598	1.118
S.F. Barq's	4-1-82	103.75	7.0	109.3		.949		.949
Dad's	10-12-81	235	10.0	399	2.005	.589	.501	1.090
S.F. Dad's	10-12-81	290	10.0	289		1.003		1.003
Bubble-Up	10-12-81	190	10.0	332	1.883	.572	.471	1.043
S.F. Bub-Up	10-12-81	255	10.0	256		.996		.996
Schweppes Ginger Ale	1-4-82	370	11.0	688	1.672	.538	.418	.956
S.F. G.A.	1-4-82	550	12.0	800		.688		.688
Club Soda	1-4-82	381	10.0	600		.635		.635
Tonic Water	1-4-82	1240	6.0	800	1.650	1.550	.413	1.963

Miscellaneous Data:

Fanta Orange	1-4-82	74.79						
Nehi Orange	9-28-81	66.00						
Nesbitt's O.	4-1-82	60.00						
Welch's O.	12-3-81	265.50						
Sundrop	5-4-82	48.55						
Suncrest	4-1-82	60.00						
CD Wink	1-1-82	77.00						
Frostie RB	4-1-82	96.00						
Frostie S.F. Root Beer	4-1-82	100.00						
NuGrape	4-1-82	124.00						

Note: This material was assembled with the assistance of a number of people at many plants and franchise companies. Price increase percentages, for the initial report, reflect different time periods. Citric acid is not included; it will be published at a later date. Sugar is converted to medium invert to allow for expression of pounds per case. Bottlers contribution to advertising funds are not included. Cases are measured on a 288 oz. basis.

This material will be updated twice a year.