BEVERAGE DIGEST

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<u>BD's Wall Street Smarts Conference Will Be Held June 15 in NYC. On the Program</u>: <u>Coca-Cola Enterprises North America Chief Cahillane and Dr Pepper Snapple Marketing Head Trebilcock</u>.

<u>BD</u> will hold its 2009 Wall Street Smarts conference Monday, June 15, at the Harvard Club of NYC. The program is in formation. The first executives on the program are: 1) Steve Cahillane, executive vp of CCE and president of bottler's North America group. 2) Jim Trebilcock, executive vp marketing of Dr Pepper Snapple Group. Additional program details will be announced shortly. Reservation form enclosed.

<u>'New Coke' Saga Finally Comes Full Circle: Coke Will Remove 'Classic' From Its U.S. Flagship Brand. No Formula Change</u>. <u>Company Unveils New Ad Campaign</u>.

Coke plans to remove word, "Classic," from the name of its flagship cola in the U.S. <u>BD</u> spots change on 16-oz bottle of Coke being used in some southeast U.S. markets (see image), and company confirms the change. However -- though the name of the product is changing -- the formula definitely is not. "Classic" has been part of the brand Coca-Cola name in the U.S. since 1985, after the "New Coke" incident. That year, Coke changed the formula of brand Coca-Cola. After much hue and cry from consumers, it brought back the original formula as "Coke Classic." It sold two "Coke" brands for some years with the new formula becoming known as Coke II, but that slowly disappeared from the market. Coke -- Coke Classic in the U.S. -- is the leading CSD brand both in North America and the world. "Classic" has been used only in the U.S. Removing "Classic" has been debated at Coke for some time, say sources, who add there are different perspectives on this. But, said one source, "it is a relic of the past and doesn't sound very modern." Added, "how many people going around saying, 'may I please have a Coke Classic?'"

<u>Coke executive</u>. Asked about this change, Hendrik Steckhan, president CSDs Coke North America, tells <u>BD</u> that it is part of a "broader plan and strategy to revitalize the brand." Notes Coke started reducing the size of the word "Classic" on packaging last year. Asked if use of "Classic" hindered appeal to youthful consumers, Steckhan says it hasn't, but adds that taking it off may enhance appeal to that demographic. Explains, "some people interpreted it like a vintage car." Adds removing "'Classic' make take one source of confusion away" about Coke's contemporary qualities. <u>Details of change</u>. Steckhan says change will be made via a soft conversion, without any "big announcement." Conversion will occur during first part of this year.

<u>History</u>. In 2007, Coke Classic's volume was about 1.7 bil cases, and no Coke II or "New Coke" was sold. But it wasn't always like that. In 1985, Coke sold 1.1 bil cases of "New Coke" and 330 mil cases of Coke Classic. By 1986, however, "New Coke" was down to

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Enclosures:

171 mil cases, and Coke Classic was back up to 1.5 bil cases. Over the years, "New Coke" volume eroded and finally disappeared -- at least from BD tracking -- in 2004. Back in the late 1990's several bottlers were said to have used "New Coke" in their markets as a lower priced entry to compete with private label and Royal Crown Cola.

New ads. Coke is also introducing a new global campaign for brand Coke, with the tagline, "Open Happiness" (BD 1/16/09). Ads began running on Jan. 21; Coke planned to run several during the Super Bowl. In describing the thinking behind the campaign, Coke CMO Joe Tripodi told BD that the Coke brand "has always expressed optimism, the brand has been in that space for decades." He said ads convey the message that, "people now need to step back, pause and refresh and rediscover some of the simple pleasures of life." Added the new campaign "is a call to action to open a Coke." Tripodi noted that work on these ads -- with optimism theme -- began in April 2008, before the malaise of the recession and financial crisis took hold. Coke Zero. Coke also planned Super Bowl ad for Coke Zero featuring Pittsburgh Steelers' safety Troy Polamalu. Recycling. One of the new Coke ads promotes recycling. It shows consumers putting empty packages into recycling bins and then scene jumps to consumers buying new packages of Coke products. Smaller packaging. Coke also plans point-of-sale promotional material for its new 16-oz cold channel packages. Two versions: 1) "Perfection Within Reach, 99¢." 2) "More mmm for your buck, 99¢."

PepsiCo Unveils North American Plans and New Ads. 'G' Stands for Gatorade.

Pepsi held meeting in NYC on Jan. 27, where executives talked of changes, growth, plans and ads. Growth. Massimo d'Amore, head of PepsiCo North American beverages, discussed past and future growth of North American liquid refreshment beverage (LRB) business. Noted from 1997 to 2007, LRBs grew annually about +2.4%, while other beverages -- milk, alcohol, tap water, tea/coffee -- overall declined about -2% per year. But, he noted, with the recession, that is changing. He said that in 2008, consumers traded down, resulting in an LRB decline. In the future, said d'Amore, LRBs can grow again, but only in line with population growth, in the low-to-mid single digit range. Among the categories, he said, CSDs will decline moderately. Water will experience low single-digit growth, and other non-carbs will grow in the mid single-digit range. CSDs. Pepsi appears to believe that the key to better CSD performance is increasing consumption occasions. D'Amore said from 1999 to 2007, the number of consumers drinking CSDs has stayed relatively stable, but consumption occasions have been declining.

Gatorade; broaden appeal. PepsiCo has significantly changed the Gatorade label graphics, replacing the visible prominence of the name "Gatorade" on labels with a large "G." In early January, company ran teaser ads, asking consumers to guess what "G" means. PepsiCo planned to answer that question with its Super Bowl advertising. PepsiCo says it aims to broaden the appeal of Gatorade. In the past, Gatorade executives have maintained that most of brand's consumer base and growth has come from "hot and sweaty" athletes. Others, however, have maintained that much of Gatorade's growth came from its transition to a lifestyle drink from a sports hydration drink. With the growing appeal of the enhanced waters, PepsiCo now seems to be working to expand Gatorade's base. In the meeting, for example, Gatorade was referred as "a brand that speaks to the athlete in everyone." The reasons behind the "G" emphasis were left somewhat vague, intentionally. Said Jimmy Smith, creative director of ad agency TBWA\Chiat\Day, "if you try too hard to (describe the meaning of "G"), you lose what's cool about 'G.'" But he did say it represents the "soul of the brand, someone who has talent and swagger."

Pepsi. Company showed new ads and the new packaging for brand Pepsi. Said Frank Cooper, vp portfolio brands, Pepsi has moved "from the taste of a new generation to the voice of a new generation." Declared that the ads are about optimism. Cooper: "There are hard times out there, and you can see the world as dimmed and flawed or with optimism." Asked about what some see as similar tone to Coke's new "Open Happiness" ads, Cooper says: "We're not saying there is happiness in a bottle, we're saying this is about the people."

SoBe focus on Lifewater. PepsiCo planned to devote major Super Bowl ad presence to SoBe Lifewater. Company said that, in the future, though other SoBe products will get attention, "Lifewater is the big opportunity." Pepsi Max. Diet Pepsi Max has been renamed Pepsi Max. With black graphics, it is being positioned as the "first diet cola for men," though Coke has also aimed Coke Zero at a more male consumer base.

Cott Loses Exclusive Supply Agreement With Wal-Mart. Acting CEO Says CEO Search Will Conclude Soon.

Cott says Wal-Mart has given it notice that the big retailer will be phasing out its exclusive "ten-year old" supply agreement with Cott. The termination is effective in three years, in January 2012. But in the interim, Wal-Mart may begin to phase out Cott as a supplier, to the extent of one third of its soft drink requirements in the year following the termination and two-thirds in the second year. Cott says talks with Wal-Mart continue and the impact on its business "is unclear at this time." This change means that Wal-Mart may look to others to supply private label CSDs, but not necessarily that it will. Cott says it continues to supply Wal-Mart. Sources estimate that Wal-Mart accounts for about 40% of Cott's business. Day of announcement, Cott's stock falls -29%. Executive. Acting CEO David Gibbons tells BD he does not know if Wal-Mart will look to other suppliers. Adds, "we have a very good relationship" with Wal-Mart. He says that since he came into the company in March 2008, "the discussions (with Wal-Mart) have been good (and) there has been mutual respect." Business. The current economic recession in North America may help Cott, as volume of private label CSDs has rebounded recently.

CEO search. Cott has been struggling in recent years, having hired and then parted ways with two CEOs. It has been conducting a CEO search, with the company now being run by interim CEO Gibbons. Gibbons says the CEO search is "close to being concluded" and expects the company to make an announcement "very soon." Source says an "internal candidate" is under serious consideration, but others may also be. Deal? Sources say there have been on-and-off talks to sell Cott over the last year or two, but source says "no deal is imminent." Ahead. Several executives and analysts suggest that if Wal-Mart does, in fact, reduce its purchases from Cott, either Dr Pepper Snapple and/or National Beverage could pick up some of the business. Wall Street. Mark Swartzberg of Stifel Nicolaus calls the Wal-Mart news a "new negative" for Cott, but suggests: "We would be surprised to see Cott go out of business." Kaumil Gajrawala of UBS publishes report entitled, "No Relief in Sight for Cott."

Glaceau Getting Folded Into Coke North America Structure. Bikoff Less Active.

The Glaceau business, which, since its acquisition, has been run by Coke as a separate organization reporting directly to Coca-Cola North America (CCNA) chief Sandy Douglas, is now being more tightly integrated in the CCNA structure but with additional brands under its wing. The business has in recent months been run by Coke/CCE veteran Hal Kravitz. Powerade has already been moving into the Glaceau organization, and Coke will now add Fuze and the Coke energy drinks to Kravitz's jurisdiction. However, he and the Glaceau unit will no longer report directly to Douglas, but instead to CCNA non-carb chief Brian Kelley who, in turn, reports to Douglas. Accordingly, Coke now has five non-carb groups: Minute Maid; Odwalla; water/coffee/tea; plus Glaceau/Powerade and Fuze/energy drinks led by Kravitz. Bikoff. Re Glaceau founder Darius Bikoff, several sources say he remains CEO but is now playing more of a consulting role, with Kravitz running the business.

Shoppers and Volume

Brand	Percent of Shoppers accounting for 80% of volume
Coke Classic	12.2%
Sprite	10.7%
Pepsi	8.5%
Gatorade	8.1%
Diet Coke	6.5%
7UP	6.5%
Dr Pepper	5.8%
Mt. Dew	5.0%
Diet Pepsi	4.6%
Glaceau Vitaminwater	4.1%
Coke Zero	2.6%
SoBe Lifewater	1.7%
Snapple	1.6%
Mt. Dew Voltage	0.6%

Few Shoppers Account for Most Brand Volume. Challenge for Marketers.

New study by Catalina Marketing shows that relatively few consumers drive most volume for consumer packaged goods and also demonstrates how that creates challenges for launching new products. Catalina notes that the "rule of thumb taught in business schools" has been that 80% of sales come from 20% of shoppers. But Catalina finds that for many brands, a much smaller percent of shoppers are key. It says that the so-called 80-20 rule "spectacularly" overstates the size of today's volume buyer base for consumer product brands. Across a large sample of brands, 2.5% of shoppers account for 80% of volume. Catalina says it did long-term study that ended last August; covered "54 mil individual consumers." Catalina used its Pointer Media Network in more than 23,000 grocery stores, mass merchandisers and drug stores. Study covered 1634 consumer brands.

Findings. Catalina says that of the 1634 brands that it studied, just 25 had "a shopper base of more than 10% driving 80%" of a brand's volume. As table shows, 12.2% of all shoppers make up 80% of Coke Classic's volume. For Sprite, the number is 10.7%. For Pepsi, 8.5%. On newer and smaller brands, the numbers go way down. For example, 2.6% of shoppers account for 80% of Glaceau Vitaminwater's volume; the number is 1.7% for SoBe Lifewater.

Implications. Catalina suggests that the findings of its study "have profound implications" for marketers and how companies "interact with their most valuable buyers." Says the challenge is "to find and effectively communicate with niche consumer segments that are frequently based more on personal sensibilities and needs than on demographics." With smaller and new brands having smaller consumer bases, a challenge for marketers, says Catalina, is how to reach "a more targeted niche segment of consumers." Mott's Apple sauce. In addition, some attributes -- such as "organic" and "green" -- are new product drivers. But they appeal to small consumer groups. For example, re Mott's Apple Sauce, 7% of shoppers drive 80% of its volume. However, for Mott's Organic Apple Sauce, just 0.2% of shoppers drive 80% of volume. The results and relationships are similar for such products as Tropicana Pure Premium and the Tropicana Heart Healthy sub-line and for Minute Maid Premium and the Minute Maid Heart Wise sub-line. Notes Catalina, "the challenge of building a consumer base is particularly difficult for new product entries.

Big Coke System Price Increases Create Slight Increase in System Dollars in 4th Quarter. PL Resurgence.

Substantial price increases by CCE and some other Coke bottlers in the 4th quarter of 2008 led to a double-digit system volume declines, but they also generated a slight increase in retail dollars. Table shows results in supermarkets for the final three 4-week periods 2008 vs 2007. All major brand-owners lost volume vs 2007, but Coke, Dr Pepper Snapple (DPS) and private label (PL) gained dollars. PL gained substantial volume with modest price increase, generating large increase in dollars. All major players raised prices, but Coke system's price increase was more than 50% greater than overall CSD category and Pepsi. Coke's price increase was more than 10 percentage points greater than PL. Perspective. CSDs are known as a price elastic category, meaning increases in prices depress volume.

Fourth Quarter 2008 Vs. Fourth Quarter 2007 CSD Results

	CSD Category	Coca-Cola Co.	PepsiCo	DPS	PL
Vol. Share	100.0	34.0	30.6	19.5	11.8
Vol. Share +/-	n/a	-1.8	-0.8	flat	+2.2
Volume +/-	-6.5%	-11.3%	-9.0%	-6.6%	+15.4%
Dollar Share	100.0	37.6	31.0	20.4	7.1
Dollar Share +/-	n/a	-0.4	-0.8	-0.1	+1.0
Dollars +/-	+1.1%	+0.1%	-1.5%	+0.7%	+17.9%
Price/192-oz	$4.57	$5.06	$4.63	$4.79	$2.75
Price +/-	+8.1%	+12.8%	+8.2%	+7.8%	+2.1%

Specifics. In Coke system's case, there was a +12.8% average price increase, and a -11.3% volume decline. But as prices increased more than volume declined, there was a slight growth in dollars. Parallel results for Pepsi system: +8.2% price increase does not offset -9% volume drop so dollars down -1.5%. DPS posted +7.8% price increase, and volume declined -6.6% so dollars were up +0.7%.

PL. One story emerging in the category is the resurgence of private label. After a long period of decline, PL may be turning around in the current recession. PL producers increased pricing a modest +2.5%; volume surged +15.4%. The result for PL producers was dollars up +17.9% vs the last 12 weeks of 2007. With these price increases -- and the difference between PL price increases and brand price increases -- the gap between PL and brand pricing in widening.

Short Interest Declines for Beverage Industry Sector, But Not for All Beverage Stocks.

For publicly-traded beverage companies, with a few exceptions, the "short interest" -- the percent of shares of a company's outstanding stock held in short positions -- declined as of Jan. 15, according to a new report from UBS. When shares are sold short, that means investors are betting that the share price will decline. For all beverage stocks followed by UBS -- non-alcoholic and alcoholic -- the overall short interest was 2.3% as of Jan. 15, down -12.8% from Dec. 31. The short interest in Coke was 1.1%, up +7.1%, meaning there was an increase in belief the stock would go down. For PepsiCo, its short interest was 0.7%, down -14.1%, meaning there was a decrease in belief the stock would subside. CCE had a short interest of 1.8%, up +16.2%. PBG's short interest was 1%, down -24.3%. Dr Pepper Snapple had a large short interest, about 4.4%, but that declined -5.7%.

Analysis: Bottler Costs Should Moderate This Year.

Analysis by Deutsch Bank (DB) states that "falling commodity costs over the past several months are the most significant positive for the industry." DB says its economists have become "increasingly bearish" on crude oil prices and industrial metals, due to the global economic slowdown. Sweetener costs "may rise in 2009, but at a slower rate than in 2008." Some bottlers may take longer to reap these benefits, as they may have hedged some of their costs last year before costs began to fall and therefore may be locked into somewhat higher prices for part of this year. According to DB, "into the middle of 2009, we should expect to some margin relief as hedges roll off." DB adds that if bottlers "relax pricing" on the beverages they sell because of these falling costs, volume growth "could follow."

Bottler Costs for 2009

	% of total	Bullish Case 2009 +/-	Bearish Case 2009 +/-
Concentrate	38%	+3.0%	+8.0%
Aluminum	15%	-30%	-5%
PET	15%	-20%	-5%
HFCS	12%	+5.0%	+15.0%
Paper	5%	flat	+7.0%
Finished goods/other	15%	flat	+6.0%
Total	100%	-5.8%	+4.3%

Plus. Table shows shares of individual bottler cost items plus "bull" and "bear" cases for commodity costs this year. Under the bullish case for bottlers, according to DB, total costs could be down -5.8%. Under the bearish case, costs could be up +4.3%. DB estimates that bottler COGS (cost of goods sold) was up about +9.1% in 2008. HFCS. DB says that HFCS pricing letters that went out in October indicated a +15% increase for this year. But, says DB, "we believe price increases for the large soft drink companies are likely to be more moderate (5%-10% range)." It is believed that some bottlers who buy HFCS using the tolling method bought corn at high prices last summer, so they may not reap the benefits at least early in the year. Gross margins. DB says that under its bullish-case scenario, major bottlers could attain increases in their gross margins from about two to five percentage points.

Analysis: Three Packages Have Accounted For Most CSD Volume. Changes Coming.

As the U.S. CSD industry in 2009 moves toward major changes in its packaging lineup, BD analyses the pre-change status of CSD packaging by going back and examining mid-year 2008 data from supermarkets and C-stores before the new package rollouts and/or tests began, at least in any scale. Table shows packaging data YTD through summer 2008 for those two channels. That date-point reflects not just the package mix at that time but also the state of things before the main impact of the recession and reduced consumer spending took hold. In supermarkets, the volume in all packages -- except 24-packs -- was down. In C-stores, all packages lost volume; 12-packs gained share. Concentration.

Supermarket and C-Store Packaging Data

Supermarkets	Vol +/-	Vol Share	Vol Share +/-	Price per 288-oz case	Price +/-	Price/unit	Retail Dollars +/-	Dollar Share
12-pack cans	-5.3%	48.8	flat	$6.39	+2.7%	$3.20	-2.7%	48.2
2-liter	-7.1%	24.0	-0.5	$4.88	+4.5%	$1.15	-2.9%	18.1
24-pack cans	+2.6%	10.3	+0.8	$5.81	-0.7%	$5.81	+1.9%	9.3
6-pack 24-oz bottles	-1.4%	4.4	+0.2	$6.20	+1.6%	$3.10	+0.1%	4.2
6-pack half-liter bottles	-6.2%	2.6	flat	$7.68	+1.3%	$2.71	-4.9%	3.0
20-oz bottles	-5.3%	2.5	flat	$18.35	+5.9%	$1.27	+0.3%	7.1
TOTAL CSD	-5.3%	n/a	n/a	$6.47	+3.5%	n/a	-2.0%	n/a

C-Stores	Vol +/-	Vol Share	Vol Share +/-	Price per 288-oz case	Price +/-	Price/unit	Retails Dollars +/-	Dollar Share
20-oz bottles	-7.0%	35.9	-0.5	$18.88	+2.6%	$1.31	-4.6%	54.3
12-pack cans	-0.7%	24.4	+1.2	$7.94	+2.6%	$3.97	+1.8%	15.6
2-liter	-4.6%	23.8	+0.3	$6.64	+3.8%	$1.56	-1.0%	12.7
6-pack 24-oz bottles	-11.7%	1.3	-0.1	$7.90	-3.4%	$3.95	-14.7%	0.8
24-pack cans	-5.1%	0.9	flat	$6.58	+0.8%	$6.58	-4.4%	0.5
6-pack half-liter bottles	-18.5%	0.1	flat	$10.45	+6.0%	$3.68	-13.6%	0.1
TOTAL CSD	-5.7%	n/a	n/a	$12.47	+2.5%	n/a	-3.3%	n/a

In the past year or two, some executives have said they believe that the U.S. industry needs to offer consumers more packages at more price points including, for cold-bottle channels, an entry point package under $1. This data shows that in supermarkets, the top-six packages account for about 93% of volume and about 90% of dollars. The top-3 packages account for about 83% of volume. In C-stores, the top-six packages account for about 86% of volume and 84% of dollars. The top-3 account for 84% of volume. Ahead. 2009 will bring slew of changes, including: 1) smaller than 20-oz bottles in immediate consumption channels. 2) additional multi-packs for future consumption channels. 3) use of proprietary-shaped 2-liter bottles for future consumption in the Coke system.

Territory Changes and Deals.

Coke Hellenic acquires Italian bottler Socib S.p.A, the second largest Coke bottler in Italy ... Small territory shift in Dr Pepper system: Coke Huntsville AL (S3 on Dr Pepper map published 10/3/08) sells its Dr Pepper franchise in Marshall County AL to CCE (M2); Coke Huntsville keeps rest of its Dr Pepper territory, which now falls within its Coke territory; CCE is Coke bottler in Marshall County ... Coke takes over as beverage provider at Cincinnati Reds' Great American Ball Park where Pepsi was previously poured.

People.

Analyst Bill Pecoriello is leaving Morgan Stanley; plans to start consumer industry boutique research firm ... Rexam group director of beverage cans is leaving the company; Rexam CEO Leslie Van de Walle will assume responsibility for company's beverage can business ... Coke Hellenic names: 1) Nik Jhangiani director strategy/business development; was CFO. 2) Robert Murray becomes CFO; was deputy CFO. Sad losses. Charles Britton died last fall; he co-owned Coke Louisa KY with his brother Harold ... Virginia Pearl Rice "Tookie" Hier died in December; she spent many years working with her brother, Cookie Rice, at Coke Ozarks Rice Springfield MO.

Briefs.

Enhanced water sweeteners. Pepsi's SoBe Lifewater 0, now hitting the market, is sweetened with reb-A and erythritol. Coke's Vitaminwater 10 (photo), set to hit stores in 1st quarter, contains rebiana (Cargill's name for reb-A), erythritol and crystalline fructose. Coke. Coke Philadelphia and Villanova University in Villanova, PA, ink deal for Coke to become university's beverage supplier ... Coke confirms it will launch "Dasani Essence" flavored water; company says product will be unsweetened; no sugar, calories or preservatives. Pepsi. 'Throwbacks.' Pepsi applies for design trademarks on "Pepsi-Cola Throwback" and "Mountain Dew Throwback"; each design evokes earlier era packaging; Pepsi Throwback, set for likely introduction this year, is version of Pepsi sweetened with sugar (BD 10/10/08). Dr Pepper Snapple. Canada Dry Green Tea Ginger Ale named "product of the year" by Product-of-the-Year USA consumer survey.

Plus. Jones Soda introduces "Orange (you glad for change) Cola" ... Nashville, TN mayor's office will stop buying bottled water ... National Association of Convenience Stores declares energy shots a new subcategory of health/beauty care. Correction: In the last issue (BD 1/16/09), BD reported on some internal changes at Coke North America. Brad Goist, who had been vp/general manager for water/hydration, remains at the company and is taking on new role; he will be managing several projects for the company's non-carb business unit. Cola wars alive and getting heated. NY Times web site, after noting Pepsi's new ad tagline "Refresh everything," publishes question from reader re Pepsi using the word, "refresh," which has also been used by Coke in the past, as in "the pause that refreshes." Times reports response from Pepsi: "With all due respect to our esteemed elder competitor, Coke's been on 'pause' for a long time. We're out to refresh consumers in a more active, engaging way." Several days later, Times publishes Coke's response: "When it comes to refreshment, Coca-Cola is the undisputed original. Unlike our sophomoric competitor, we didn't just discover refreshment yesterday, knock off a logo and slap it on a billboard. It's what we've always been about."

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