

without the national advertising expense faced by other brands. As a result, large national brands had seen their profit margins squeezed by the growth of private-label brands.

The industry suffered from intense price competition as sales of private-label CSDs increased and consumer demand decreased. An increased legislative and consumer focus on health had caused a slight decline in CSD sales. In addition, demand for other beverages, such as bottled water, had increased. In fact, to capitalize on this trend and to leverage distribution efficiencies, many national beverage firms offered a wide product portfolio that included both carbonated and non-carbonated beverages. These firms used consumer demand for their strongest brands as a bargaining tactic with retailers to secure additional shelf space for other beverages in their portfolio. Consumer interest in niche beverages was also increasing. New, innovative energy drinks and other so-called functional beverages were gaining market penetration, particularly with younger consumers. However, despite this trend, CSD sales continued to dominate this market. Approximately 30 different brand names and 200 flavors of CSDs were available in the Canadian market.<sup>5</sup>

Cola was the top-selling flavor in the market, representing 80.0 per cent of CSD sales. However, during the 1996 to 2000 period, the fastest growing flavors were lemon-lime and orange. The largest distribution channels were standard grocers and mass merchandisers, accounting for more than one-third of the overall volume. Convenience stores accounted for more than one-fifth of the sales volume.<sup>6</sup> CSDs were also sold in many other minor channels, including drugstores, gas stations and vending machines. CSDs sold through these channels were usually packaged in aluminum cans or plastic bottles. Improvements in plastics technology meant that few brands packaged in glass bottles, due to the increased transportation costs and breakage, although some premium brands still used glass exclusively. This technological change also meant that few bottlers had the capacity to bottle CSDs in glass. Food-service outlets, such as bars and restaurants, mainly purchased concentrated syrup for use in fountain dispensers, although some smaller outlets purchased CSDs in cans and bottles. Many food-service channels were bound by exclusivity deals with their suppliers. For example, restaurants that offered Coca-Cola products were often unable to offer Pepsi or other competing products because of the terms of their agreement with Coca-Cola.<sup>7</sup>

## COMPETITIVE LANDSCAPE

The CSD industry was highly consolidated, with four large firms dominating 90 per cent of the market. A few niche products competed for the remaining 10 per cent market share.<sup>8</sup> Large national brands offered various flavors under different brand names (see Exhibit 3).

### The Big Four

The four firms that dominated the CSD market were the Coca-Cola Company, PepsiCo Inc., the Dr Pepper Snapple Group and the Cott Corporation.

<sup>5</sup> Agriculture and Agri-Food Canada, *The Canadian Soft Drink Industry*, 2009, [www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172167862291&lang=eng](http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172167862291&lang=eng), accessed January 10, 2011.

<sup>6</sup> Datamonitor, "Canada — Carbonated Soft Drinks" 2003, <http://360.datamonitor.com/Product?pid=645FA053-3B8B-46A1-A2DC-53F871B1F13E>, accessed July 4, 2011.

<sup>7</sup> Agriculture and Agri-Food Canada, *The Canadian Soft Drink Industry*, 2009, [www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172167862291&lang=eng](http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172167862291&lang=eng), accessed January 10, 2011.

<sup>8</sup> Datamonitor, "Canada — Carbonated Soft Drinks, 2003."

The Coca-Cola Company

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Coca-Cola was among the world's largest manufacturers, distributors and marketers of carbonated beverages and syrups. It held the number-one position in Canada. Along with the regular Coke brand, the company marketed other popular brands such as Diet Coke, Sprite, Crush and Canada Dry.<sup>9</sup> Coca-Cola had a strong presence in all major distribution channels and had many exclusivity deals with food-service and institutional channels.

PepsiCo Inc.

PepsiCo manufactured, marketed and sold a variety of carbonated and non-carbonated beverages such as Pepsi, 7-Up, Mirinda, Gatorade and Mountain Dew. Some of PepsiCo's brand names were more than 100 years old.<sup>10</sup> It held the second position in the Canadian CSD market and had a strong presence in all distribution channels. Like its main competitive rival, Coca-Cola, PepsiCo also had exclusivity deals with mass-market distribution channels, and a smaller presence in the food-service channel.

Dr Pepper Snapple Group

Dr Pepper Snapple (DPS) was the bottler and distributor of Dr Pepper soda and Snapple drinks. Among its brands were A&W Root Beer, Country Time, Hawaiian Punch, Schweppes, Squirt, Hires and RC Cola. Formerly a subsidiary of Cadbury Schweppes, DPS was the result of the separation of Cadbury's beverage and confectionary businesses.<sup>11</sup> DPS had a strong presence in the traditional grocery, convenience and mass-market distribution channels, and a smaller presence in the food-service channel.

Cott Corporation

The Cott Corporation was the primary producer of private-label soda pop brands in Canada. The company manufactured, packaged and distributed more than 75 retailer and Cott-branded soft drinks for grocery, drugstore and convenience store customers.<sup>12</sup>

Premium Niche Beverage Companies

Premium niche market brands were usually priced higher than the larger national, corporate brands. They often had a unique positioning appeal, given their limited distribution and the cachet of glass bottles. Although many small regional premium brands were on the market, two main rivals in the premium niche market stood out: Jones Soda and Stewart's Fountain Classics.

<sup>9</sup> Datamonitor, "Carbonated Soft Drinks in Canada (No. 0070-0028)," 2010, <http://360.datamonitor.com/Product?pid=190952F5-4EF4-4A1C-9866-9A1E2D9B3605>, accessed July 4, 2011.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Hoovers, "Cott Corporation," 2008, <http://cobrands.hoovers.com/global/cobrands/proquest/factsheet.xhtml?ID=42846>, accessed December 6, 2008.

### Jones Soda

Jones Soda manufactured brightly colored beverages in unusual flavors, such as Fufu Berry, Turkey and Gravy (for Thanksgiving) and other unique creations. It positioned its offerings as an edgy alternative to more traditional sodas. The company designed eye-catching graphics and exotic flavors in an attention-grabbing style. Although it had some presence in traditional distribution channels, it had a stronger presence in less traditional retailers, such as Chapters Indigo bookstore cafés and Starbucks coffee shops. The company retired flavors periodically to keep its line of sodas hovering around 12 flavors.<sup>13</sup> Jones Soda's style had created a cult following of people attracted to its avant-garde positioning.

### Stewart's Fountain Classics

Stewart's Fountain Classics (Stewart's) was a nostalgia-positioned brand. Stewart's was originally produced by Cable Car Beverage, a small, national soda pop company in the United States. It was purchased by Triarc Investments and later by Wendy's/Arby's in 1997. Stewart's was then licensed to the Dr Pepper Snapple Group (DPS) in 2000. The company focused on making classic-themed flavors, such as Birch Beer, Orange and Black Cherry and enjoyed a wide retail distribution under DPS control.<sup>14</sup> Although part of a larger corporation, Stewart's had the appearance of an independent, old-fashioned brand.

### Regional Brands

In addition to premium brands with national distribution, several small, regional soft drink producers competed in differing geographic areas. Such firms included Seaman's Beverage of Prince Edward Island and Propeller of Nova Scotia. Although not substantial competitors, they often had a strong local following in their respective markets.

## CONSUMER TRENDS

Alger had talked to as many people as he could, gathering information and making industry connections. He discovered that although large national brands such as Coke and Pepsi had strong distribution and manufacturing operations, a network of suppliers could support a small start-up brand. Although Alger could try to recreate the Pop Shoppe brand as a chain of stores selling their own soda, he learned that he could also establish the brand as a ready-to-serve item sold through traditional channels. His research had helped him to locate bottling companies that could manufacture his product in both plastic and glass. Bottle manufacturers could supply standard or custom-designed bottles. Distribution agencies with national networks could help him to access retail stores that might be too difficult for him to enter by himself. However, despite these findings, Alger still did not know how well the Pop Shoppe name would be received. He had no opportunity to do any formal consumer research. However, looking at some broad trends in the consumer economy, he tried to estimate consumer response.

In 2003, the economy was emerging from a recession period that had caused a decrease in consumer spending. Consumers had cut back on major spending in favor of focusing on necessities. However, some

<sup>13</sup> Hoovers, "Jones Soda," 2008, <http://cobrands.hoovers.com/global/cobrands/proquest/overview.xhtml?ID=108097>, accessed December 7, 2008.

<sup>14</sup> Hoovers, "Wendy's/Arby's," 2008, <http://cobrands.hoovers.com/global/cobrands/proquest/history.xhtml?ID=11863>, accessed December 8, 2008.

industries had felt the impact more than others. While large-ticket items had seen a decline in sales, other small-ticket categories had done well as consumers chose to indulge in affordable luxuries. This phenomenon was known as the "lipstick effect," referring to the increase in sales for premium cosmetics during the Great Depression of the 1930s. In tough economic times, consumers occasionally tried to lift their mood by purchasing affordable, hedonistic goods.<sup>15</sup> This trend occurred across many categories, and companies were enjoying the success of premium-positioned goods in non-luxury categories.

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By the early 2000s, Canada's population was ageing, leading to an increase in the proportion of consumers over the age of 40. This ageing population was reflected in an increase in consumer nostalgia for the 1970s and early 1980s. Disbanded musical groups, such as Fleetwood Mac, Blondie and the Eagles, had staged successful comeback tours playing their old music. Television had seen the success of *That '70s Show*, a sitcom about a group of teenagers living in the mid-1970s. Cinema had successfully offered movie-goers remakes of 1970s classics such as *Charlie's Angels* and *Starsky & Hutch*, as well as period pieces such as *The Wedding Singer*, which celebrated early 1980s popular culture.

However, consumer nostalgia was also benefitting firms that marketed more traditional consumer goods. The marketplace was increasingly re-introducing old, forgotten consumer brands. Names such as Converse All-Stars (shoes), the Volkswagen Beetle and Mini Cooper (cars) had all been successfully reborn after an absence from the market. Other declining brands, such as Hush Puppies (shoes) and Pabst Blue Ribbon (beer), had enjoyed resurgence in sales after being adopted by new consumer segments. These so-called retro-brands were now successfully appealing to both older consumers who remembered the original brand and new consumers who helped build new brand meaning. However, not all retro-brands had succeeded. Brands such as Hai Karate (cologne) and the Ford Thunderbird (car) had failed in their attempts to tap into consumer nostalgia to support their rebirth. Therefore, although brand names with nostalgic appeal could capture consumer interest faster than a new, unknown offering, they did not always have an advantage.<sup>16</sup>

## ALGER'S DILEMMA

Looking at the market, Alger wondered whether there was an attractive space for the Pop Shoppe. His gut instincts told him that older consumers would embrace the reintroduction of the old brand, but he also knew that it was a tough industry to enter. It was difficult to know whether older consumers would be a sustainable market segment. Would older consumers, who were parents today, be able to turn their children onto the brand? With little experience and limited funds, he knew that if he proceeded with the idea, he could not afford to make many mistakes.

If he chose to reintroduce the Pop Shoppe, he questioned how true he should stay to the original concept. How would consumers who remembered the brand react if he changed things too much? The old Pop Shoppe was a discount brand sold through dedicated stores. Could a new Pop Shoppe compete on price and convenience? Would he be better to position the Pop Shoppe in a niche segment, similar to the strategy behind Jones Soda and Stewart's? He knew that the old brand offered a wide variety of flavors that would be unrealistic to recreate. Alger wondered how many (and which) flavors would be viable in today's market. He estimated flavor reformulation costs at roughly \$10,000 per flavor. The old Pop Shoppe came in glass bottles, but the majority of contemporary CSDs were packaged in plastic and aluminum. Glass bottles might be more authentic to the brand's heritage, but they would also be more difficult and more expensive to produce.

<sup>15</sup> Dana Flavelle, "Canadians Won't Surrender Guilty Pleasures," *Toronto Star*, February 7, 2009, page B1.  
<sup>16</sup> Allison Cenna, "Everything Old Is New Again: Staging Successful Retro Revivals," 2009, DDB Chicago, retrieved March 1, 2011, from [www.ddb.com/pdf/yellowpapers/DDB\\_YP\\_Retrobrands\\_Jul09.pdf](http://www.ddb.com/pdf/yellowpapers/DDB_YP_Retrobrands_Jul09.pdf), accessed March 1, 2011.

Despite all these questions, one major concern involved getting the product into consumer hands. Alger had no relationships with traditional distribution channels; trying to convince retailers to stock a new brand from a new company with no industry experience would be a challenge. He could use a distribution agency that would handle warehousing and sales for him, but this approach would add another layer of costs and cut into his margins. A distribution agency carried many different beverages and had relationships with many retailers. However, these companies invested significant effort in getting the brands they carried onto store shelves. They were not interested in wasting effort with brands that overlapped with each other, or brands that might not survive. Convincing a distribution agency to carry his brand would require some work. Despite Alger's love for the old brand and his entrepreneurial spirit, he knew that a decision to enter the market would require a lot of hard work to raise significant consumer and retailer interest. He needed to weigh his options carefully and decide what to do.

## POP SHOPPE CASE B

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*Kendra Hart wrote this case under the supervision of Professor Matthew Thomson solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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### INTRODUCTION

In 2004, Brian Alger relaunched the Pop Shoppe brand in Canada. Although Alger had no industry experience and limited funds, he compensated for these weaknesses by streamlining his operations as much as possible. He relied on a network of outsourced specialist firms. Alger hired independent packaging and graphics designers, flavor engineers, concentrate manufacturers and bottling companies to help design and produce his product. Although he initially tried to broker retail listings himself, he soon outsourced this responsibility as well. Alger contracted with a large beverage distributor that had strong relationships with many retailers. This distributor became Alger's main customer, purchasing the end product from him, and then handling sales, warehousing, shipping and other distribution-related functions. With most of the production and distribution chores handled by specialist firms, Alger could focus on managing the brand.

Alger recognized that the Pop Shoppe's brand equity was tied up in consumer nostalgia. The children that grew up drinking Pop Shoppe pop were the main purchasers today. Retail buyers in that age bracket could see the potential for the brand because they often had the same fond memories they hoped consumers would have when they saw the brand on store shelves. Alger tried to keep the brand authentic by maintaining the logo and glass bottle packaging and by simulating the old flavors as closely as he could. The only fundamental difference was in price. Whereas the old 1970s Pop Shoppe had been a deep-discount brand, the new Pop Shoppe was repositioned as a premium beverage, charging a higher price than large national brand names.

To capitalize on the Pop Shoppe's heritage, Alger's marketing efforts included a restored vintage Volkswagen van that he drove to promotional events, retro-styled T-shirts and similarly styled sales sheets. Paying homage to the brand's heyday helped to transport older consumers back in time and gave the brand a playful feel. These tactics helped generate consumer awareness and media buzz. In time, consumers who tried the brand for nostalgic reasons soon bought the brand for its flavor as much as for its image, which helped to cement the Pop Shoppe's place in the market as being more than just a fad.

### RIDING THE WAVE OF SUCCESS

By 2010, Brian Alger was enjoying unanticipated levels of success with his revived Pop Shoppe brand, which held second place in the premium carbonated soft drink (CSD) category. The Pop Shoppe lagged behind Jones Soda, but ahead of Stewart's Fountain Classics. This level of market penetration and speedy growth had been unexpected for a one-person company with limited funds and little industry experience. With such quick success, Alger began contemplating his next move.

When Alger first considered securing the rights to the Pop Shoppe brand name, he had been mainly interested in having bragging rights to friends who remembered it fondly from their childhood. However, he soon realized a significant market opportunity for resurrecting the dead brand. Alger had a lengthy history as an entrepreneur, having created several businesses across different industries. Now, having made a successful dent in the Canadian market, Alger wanted to grow the brand larger, in hopes of selling out and moving on to other business ventures that had captured his interest. He had watched as other small soft drink brands had been bought up by larger firms and thought that the Pop Shoppe should be attractive to other firms looking to expand their portfolio. Alger was concerned that he might have taken the brand as far as it could go in its home market and was considering other avenues for growth. Having established a solid footing in the Canadian market, he began to wonder whether the Pop Shoppe could find a similar level of success in the United States.

### POP SHOPPE U.S.A.

The Pop Shoppe was a discount soda pop brand that had originated in Canada in 1969 and had then expanded into the United States in 1974. Top management at the time had felt confident that the brand could establish a strong foothold in the American market. By 1978, the Pop Shoppe was targeting five per cent market penetration in the United States.<sup>1</sup> This goal had seemed reasonable, given its eight per cent market share in Canada and the similarities between the two markets. However, American expansion did not progress as smoothly as had been expected.

Through its wholly owned subsidiary, the Pop Shoppe eventually migrated into 11 different states. Although it seemed like a significant market penetration, these locations were not well focused geographically. American distribution was slightly concentrated in the Midwest, with additional outlets on both the East and West coasts (see Exhibit 1). Although the larger U.S. population provided even the most remote location with a sizeable customer base, this disjointed distribution meant that the American Pop Shoppe did not enjoy the same degree of advertising, promotion synergy and national awareness as its Canadian operations.

By late 1979, sales for the Pop Shoppe chain were in decline as large national and private-label brands became both more price-competitive and more convenient. Losses soon reached \$3.8 million for the entire North American operation. In 1981, the company decided to abandon its U.S. operations and focus on its core Canadian market. Despite eliminating the burden of its American operations, the Pop Shoppe could not survive, even in its home market. The company went into receivership in 1982 and eventually died.<sup>2</sup> Many analysts believed that the brand's American expansion was an important element of its eventual failure because the company had used the more successful (but smaller) Canadian market to subsidize its weaker performance in the United States.

<sup>1</sup> Carey French, "Pop Shoppes Expects Planned Sale of Holdings to Depress Profits," *Globe and Mail*, June 30, 1978, p. B10.

<sup>2</sup> Jack Willoughby, "Pop Shoppe Bottlers Get Rid of Loan Burden," *Globe and Mail*, May 3, 1983, p. B1.

## THE AMERICAN CARBONATED SOFT DRINK MARKET

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The United States held roughly 33 per cent of the global CSD market. Such a large percentage of the global market meant that capturing even a small percentage of market share could be lucrative. However, despite its absolute size, the American CSD industry faced many of the same challenges as in Canada. For example, both markets faced such hurdles as changes in consumer habits and increased threat from alternative beverages such as bottled water and functional drinks.

The U.S. CSD market shrank nearly four per cent in 2009 to reach a volume of 58 billion liters. This reduction in volume translated into a sales reduction of close to two per cent, resulting in a market value of \$62 billion. By 2014, the American CSD market volume was forecast to be 52.8 billion liters, a decrease of about nine per cent since 2009. This decreased volume was projected to translate into a value of \$60.6 billion, a decrease of 2.2 per cent from 2009. Despite these reductions, the total U.S. market value was roughly 20 times the total Canadian market.<sup>3</sup>

The American CSD industry had similar dynamics to those found in Canada. The same three firms dominated the American market (see Exhibit 2), supported by a system of licensed bottlers and distribution contracts. However, one important distinction between the Canadian and American CSD markets was the increase in the United States in competition for the premium CSD segment.

Despite the strength of the major national and private-label brands in the United States, premium and novelty glass-bottle CSDs were not uncommon (see Exhibit 3). The U.S. market included approximately 90 glass bottling firms that packaged more than 120 brands of soda.<sup>4</sup> Although a portion of these firms specialized exclusively in niche-brand CSDs, other bottling firms were part of established brewery operations that packaged CSDs alongside harder beverages. Unlike the heavily regulated beer and liquor distribution channels in Canada, American breweries could distribute their product through many more retail channels, such as grocery stores and convenience stores. This difference meant that American-based glass bottlers could fill their delivery trucks with not only soda and other soft drinks but alcoholic beverages as well. This wider variety of product enabled American distributors to have potentially stronger relationships (and therefore power) with retailers than was seen in the Canadian market. Although these production and distribution synergies could be beneficial to domestically manufactured brands, they could make it more difficult for new firms to enter the market from the outside. In addition to strong competition from domestic manufacturers, soda pop connoisseurs looking for unique alternatives could also choose from a variety of imported sodas. In the United States, specialty retailers and online merchants offered hundreds of different flavors of premium CSDs.

## THE CURRENT OPPORTUNITY

The Pop Shoppe had become successful in its home market. However, Alger did not see his future as being involved in managing the company in the long term. As a serial entrepreneur, Alger was keen to move on to other ideas. Although he had a personal fondness for the brand, he hoped to sell it to another company that could continue the brand's growth, leaving him free to pursue the next start-up:

I'd be gone if someone wanted to buy me out. From the beginning, I kind of knew that I had something, but I thought the acquisition would have happened by now. I'm really not

<sup>3</sup> Datamonitor, "Carbonated Soft Drinks in the United States: Industry Profile." 2010, <http://360.datamonitor.com/Product?pid=85C81663-19EA-46B0-8823-4DAFB7198F99> accessed July 4, 2011.

<sup>4</sup> Brent Barber, "Current Site Statistics," [www.glassbottlesoda.org](http://www.glassbottlesoda.org), March 25, 2011.

big enough yet for the big companies, but too big for the smaller regional brands. I think if I was having the same kind of success and market penetration in the U.S. I'd have been bought by now.<sup>5</sup>

He knew that if he wanted the Pop Shoppe to grow he would need to make some decisions. Although the Pop Shoppe had made a successful re-entry into Canadian market, Alger questioned the opportunities in the American market when there was so much diverse competition in the premium segment.

It's different in the U.S. We have some brand equity there, but we don't test as high as in Canada. Pop Shoppe was in about 11 different states, so it wasn't a national brand. But there was a good amount of presence. Currently the biggest amount of requests for product comes out of the US.<sup>6</sup>

Alger knew from his Canadian experience that it wasn't easy to get shelf listings with retailers who may already have a wide variety of beverages that are selling well. If he entered the American market, he would need to build his brand quickly, both with consumers and retailers, which would be challenging, given the amount of competition in the premium CSD segment. In addition to well-established classic brands, new brands were popping up all the time, trying to be the next Jones Soda. Alger considered whether the Pop Shoppe's brief history in the United States might be enough to give the brand a competitive edge.

The good thing is that we have stronger brand equity than those other ones because other brands get created just for the sake of being created. They aren't really well financed and don't have the money to establish the brand. This is where they'll stall and we'll probably flourish.<sup>7</sup>

Alger wondered how best to proceed. His drive to grow the brand in hopes of acquisition made the larger U.S. market seem like an appealing option. However, it also had many potential risks. Lingering brand equity had helped relaunch the brand in Canada, but did the brand have that same kind of equity in the United States? The brand had not fully penetrated the American market in the 1970s, leaving Alger to question which states would be the best initial target for expansion. As well, he wondered whether he should seek domestic production or continue manufacturing in Canada with his existing network of suppliers. Although bottling in Canada would create some logistical hurdles, Alger wondered whether the strength of these existing relationships would allow him both the financial and production flexibilities he might need as he navigated a new market.

Lastly, Alger wondered how to raise consumer awareness and distributor interest in such a crowded market. The premium CSD market in Canada had only two main national rivals and a few minor regional brands and imports. Could he rely purely on brand equity to capture part of the market, or should he try to build a new brand image? Although he felt confident that a portion of American consumers remembered the brand, were their memories so weak that he could have more liberty with the brand image than he did in Canada? Although he was excited about the possibilities for the American market, Alger knew that he would need to make some smart decisions to help him capitalize on the opportunities while mitigating his risk. He wanted to grow the company and move on. He did not want to jeopardize his Canadian success by investing too much into an American gamble.

<sup>5</sup> Brian Alger, personal interview, October 15, 2010.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*