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Distribution of soft drinks in the greater Boston area.

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Boston University
BOSTON UNIVERSITY
College of Business Administration

THESIS

Distribution Of Soft Drinks In The Greater Boston Area

by

Carl Ward

(A. B. St. Patrick's College 1954)

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

1956
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I. Distribution Of Soft Drinks In The Greater Boston Area

A. History

Since the advent of Prohibition, the soft drink and bottling industry in the United States has been obliged to meet many new and puzzling conditions. While the small bottlers welcomed the passage of the Prohibition Act feeling that their business would increase materially they overlooked the natural consequence, namely that the brewer, deprived of his legitimate business, would look for new industries to enter and would naturally select one of those industries most closely allied to the industry with which he was familiar. Therefore, as a natural consequence, many brewers entered the soft drink industry and the fond expectations of the bottlers that part of the money spent for beer would be diverted into their coffers was not realized. Consequently, the bottler faced a more formidable competition.

B. Science And The Bottling Industry

The brewing industry of the United States had reached a high state of development and efficiency compared to the development of the soft drink industry. This was due to the guidance of scientific men and technical experts. Some of the brewing plants were, without doubt, the most perfectly equipped, as regards machinery, of any in the world at the time. It was only a matter of three or four years' time before the small bottler fully realized the formidability of the brewer's competition. These brewers shipped to every state in the Union and invaded the territory of the small bottler everywhere. Some of the brewers manufactured not only soft drinks, but basic
extracts for use of bottler and the soda fountain. The Pabst Brewing Company was one of the first brewers to make this change. They created a subsidiary Corporation under the name of Hoffman Beverages, which began to market soft drinks in the New York area. In a short time, the soft drink division was able to make full utilization of the distribution facilities of the Pabst Brewing Company. In this way, the Corporation was able to obtain a wide distribution in a relatively short time.

1. Effect Upon The Small Bottler

The only way the soft drink bottler could meet these changing conditions successfully was to keep abreast of the times. The old-fashioned bottling plant with its old-fashioned machinery of primitive nature was not able to survive the constantly-increasing pressure of competition. The plants which were incapable of producing pure and sanitary products were doomed. The brewer educated the public as to uniformity of product as well as sanitary manufacturing conditions and made his appeal by means of nation-wide advertising. The brewer led the way in the reformation of the soft drink industry to what we know it to be today.* His manufacturing equipment was one of perfection and of the most modern construction. It was large. It enabled the brewer to prepare as much as 500 or more barrels of root beer or gingerale etc., at one time.** The result was uniformity. He carbonated his beverages in bulk, thereby usually incorporating more gas and binding it more firmly.

* 1, P. 14
** 1, P. 16
He filled his bottles with uniformity, pasteurized them wherever necessary to avoid spoilage, and introduced attractive crowns and labels in order that his drink would appeal to the eye as well as to the taste—a very important item in the marketing of food products.

This forced the small independent bottler to see to it that his plant was sanitary in every respect. Soft drinks are food products and must be handled accordingly. The bottler, handicapped by antiquated equipment and using cheap materials, was not able to produce a good product. He found it cheaper to invest in new machinery and to buy the best materials than to be constantly bothered with complaints and returns, which would finally undermine a good business and throw it into competitors' hands.

Although the brewers were able to obtain national distribution of their products, the bulk of the beverage market was concentrated in certain areas. It was in these areas that the small bottler was firmly established. He had the advantage of having been established in the community and of not having to come into a new market. The following table illustrates how concentrated the small bottlers were.

*1, P. 19*
I NUMBER OF SOFT DRINK MANUFACTURERS BY PRINCIPAL STATES*

<table>
<thead>
<tr>
<th>STATE</th>
<th>1929</th>
<th>1931</th>
<th>1933</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. Total</td>
<td>5,154</td>
<td>4,250</td>
<td>2,903</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>468</td>
<td>382</td>
<td>210</td>
</tr>
<tr>
<td>New York</td>
<td>463</td>
<td>384</td>
<td>218</td>
</tr>
<tr>
<td>Texas</td>
<td>325</td>
<td>260</td>
<td>210</td>
</tr>
<tr>
<td>Illinois</td>
<td>267</td>
<td>219</td>
<td>156</td>
</tr>
<tr>
<td>Ohio</td>
<td>228</td>
<td>191</td>
<td>126</td>
</tr>
<tr>
<td>Total for 5 states</td>
<td>1,751</td>
<td>1,439</td>
<td>920</td>
</tr>
<tr>
<td>Total for 43 other states</td>
<td>3,403</td>
<td>2,811</td>
<td>1,983</td>
</tr>
<tr>
<td>Per cent 5 states are of total</td>
<td>34%</td>
<td>34%</td>
<td>32%</td>
</tr>
</tbody>
</table>

*Source: Census of Manufacturers, 1944. Establishments whose annual production is less than $5,000 are excluded.*

By 1946 the five leading states were New York, Pennsylvania, Wisconsin, Missouri, and Ohio, which produced 28.8 million barrels or more than 52.5 per cent of the national total of 55.1 million barrels.**

2. Problem of Raw Material

Aside from labor, overhead etc., the largest item of expense to the bottler is the cost of raw material, namely the flavors employed in the manufacture of the drinks. This may run as high as 40 per cent of the cost of the product.

* 7, P. 8
** 3, P. 5
These flavors are usually purchased ready-prepared from extract manufacturers, who naturally sell these at a good profit. Inasmuch as practically every bottler is in a position, with very little experience, to manufacture his own extracts, it is here where he can accomplish a most substantial saving in the cost of manufacture. Many manufacturers are rather reluctant to try this because of the fact that the extract can make or break the flavor of the soft drink. Most manufacturers are content to rely on the skill of the extract producers. There is nothing worse than a soft drink that tastes like sweetened water.

The cost of labor in this industry in relation to product value is extremely low. The following table shows that the total labor cost runs around 13 or 14 per cent of the total value of the product. The cost of materials is a little more than a third of the total value.*

II VALUE OF SOFT DRINKS, LABOR COST, AND COST OF RAW MATERIALS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Value of Product (Thousands)</th>
<th>Total Cost of Labor (Thousands)</th>
<th>Total Cost of Materials (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>$270,324</td>
<td>$38,314</td>
<td>$103,026</td>
</tr>
<tr>
<td>1931</td>
<td>$212,567</td>
<td>$30,082</td>
<td>$76,045</td>
</tr>
<tr>
<td>1933</td>
<td>$111,308</td>
<td>$11,196</td>
<td>$41,364</td>
</tr>
</tbody>
</table>

*Source: Census of Manufacturers, 1944. Percentages computed by N.R.A., Research Planning Division. This includes materials, containers, fuel, purchased electric energy.

**14, P. 15

7, P. 11
III PRINCIPAL ELEMENTS OF THE COSTS AND EXPENSES
WITH THE RATIO OF EACH TO TOTAL COST

<table>
<thead>
<tr>
<th>Items of Cost and Expense</th>
<th>Year - 1939</th>
<th>Ratio to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials cost</td>
<td>33,451,497</td>
<td>40.1</td>
</tr>
<tr>
<td>Production wages and salaries</td>
<td>3,831,261</td>
<td>4.6</td>
</tr>
<tr>
<td>Other production costs and expenses</td>
<td>4,304,313</td>
<td>5.2</td>
</tr>
<tr>
<td>Depreciation and obsolescence of production facilities</td>
<td>1,529,556</td>
<td>1.8</td>
</tr>
<tr>
<td>Finished goods purchased for resale</td>
<td>3,588,947</td>
<td>4.3</td>
</tr>
<tr>
<td>Selling expense</td>
<td>13,453,213</td>
<td>16.1</td>
</tr>
<tr>
<td>Advertising</td>
<td>12,071,128</td>
<td>15.4</td>
</tr>
<tr>
<td>Administration and General office</td>
<td>7,305,519</td>
<td>8.8</td>
</tr>
<tr>
<td>All taxes</td>
<td>2,399,579</td>
<td>2.9</td>
</tr>
<tr>
<td>All social security and pension fund payments</td>
<td>562,943</td>
<td>0.6</td>
</tr>
<tr>
<td>Research and development</td>
<td>137,744</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>83,138,205</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


* 4, P. 18
II Soft Drinks.

The term "soft drinks" is applied in the United States to common beverages which contain no alcohol. This definition should also include such beverages as milk, tea, coffee, and the like which, however, are seldom referred to as soft drinks. Soft drinks, as referred to by the trade as well as by the public, "are beverages consisting of a solution of sugar or other sweet substances in plain or carbonated water, colorless or colored with natural or artificial colors and flavored with fruit juices or with natural or synthetic essential oils."

Therefore, soft drinks can be classified under one of several classes. *

A. Still Drinks Not Carbonated
   1. Prepared from fruits.
   2. Prepared from essential oils.

B. Carbonated Drinks
   1. Prepared from fruits.
   2. Prepared from essential oils.

C. Simple Fruit Juices
   1. Still.
   2. Carbonated.

D. Changes in the Industry

Major changes are taking place in the soft drink industry. Goaded by competition, keen in some sections of the country, but keener in others, the leaders in the field have become revitalized. They are adopting more vigorous promotion campaigns, such as attaching plastic bottle stoppers with each bottle that will keep

* 1, P. 30
the fizz after the bottle has been opened and sponsoring national radio and television programs. They are making marked changes in methods of distribution which will be explained in the study of the individual companies. They are also entering more retail outlets in order to capture a greater portion of a steadily expanding market. The greater Boston area is no exception to the national trend, for this area is one of the most highly competitive parts of the country. Every manufacturer, big or small, is striving to have their many innovations trickling down the gullets of the proper Bostonians. Just how keen this competition is, will be brought out in the study of the individual companies in the area.

Per capita consumption of soft drinks for 1953 was 175 bottles in contrast to 162 bottles reported in 1952 by the American Bottlers of Carbonated Beverages. The per capita figure represents some, but not all of the fountain drinks consumed, since many fountain operators buy syrups direct from parent companies or wholesale jobbers rather than local bottlers. Consumption estimates are supported by the industry's individual parent companies or franchise houses, which generally make the basic concentrated syrup, which the independent local bottlers finish into the familiar retail form.

Continued growth in the per capita consumption seems likely in the 1950's since the number of children and young people is

* 3, P. 81
** 10, P. 6
increasing and this age group is an important factor in the soft drink market. Population projections by age groups made by the United States Bureau of Census show a sharp increase in the number of children and young people during the fifties.

E. Consumption on the Increase

Naturally enough, the industry wonders if there is a saturation point—a time when demand will run off. Right now this point or time is not discernable, any more than it was 10 or 20 years ago. There is the obvious fact that the increasing population is indulging to an ever-increasing extent in soft drinks. This expansion in sales can be attributed in part to the quality products from the leaders who set the pace for the industry. In order for the smaller companies to compete, they must match this higher quality of the leaders. The end result is that those companies with a poor product find themselves out of business. The leaders have been able to increase the quality of their products tremendously, maintaining a stable price that does not rise with quality. The smaller companies have had to meet this since they cannot compete on a price basis.

1. Household Consumption

An increasingly greater portion of the population is being converted to soft drinks at work and at home. Household consumption has reached such volume that the big super markets and other food stores invariably maintain permanent, prominent displays of soft drinks in both large and small bottles that are as large as any other type of product carried. These
products rank tenth among all food items sold in these stores. The average super market purchase of soft drinks amount to four 32 ounce bottles or twelve 12 ounce bottles.** It is assumed that these purchases are for home consumption since they are not consumed on the premises.

2. **Effect of Substitutes**

There is room for optimism on the part of the soft drink producers. This, however, is tempered by the realization that to stay in business, it will be necessary for each of them to continue making heavy appropriations for new facilities and broad advertising campaigns. The competition is formidable. The nationally advertised products of the soft drink producers must compete with a score of more comparable products put out by as many different companies that have substantial distribution in regional markets. For this reason, the industry, even though it was confronted with rising manufacturing and other costs over the last few years, was reluctant to put a price boost into effect until a few months ago. At that time, Pepsi-Cola advanced its price to bottlers by a 20 cent price on a case of twelve ounce bottles, moving the retail price up by 2 cents a bottle. Other producers moved along, boosting split-size bottles up 2 cents and advancing the rate of family-size containers by 5 cents.

* 5, P. 3
** 5, P. 4
Meanwhile, the leaders continue their efforts to improve operating techniques and effect economies, the results of which, in combination with better prices, should be reflected in improved earnings. How much of an improvement depends, to one extent, on weather conditions through the summer months, that is, if the temperatures are high enough to keep the populace beating a path to the household refrigerator, the soda fountain, or the vending machines for a cooling soft drink. The importance of seasonal variations in the soft drink industry may be observed more clearly by the following table. The index of monthly employment and monthly payrolls for manufacturing employees in 1943 indicates that the industry is of a seasonal nature. The five month period, June through October, includes the peak of both employment and payrolls.
IV SEASONALITY OF MANUFACTURING EMPLOYMENT

February - December - 100

<table>
<thead>
<tr>
<th>Month</th>
<th>Index of Number of Employees</th>
<th>Index of Total Payrolls</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>106.7</td>
<td>105.1</td>
</tr>
<tr>
<td>February</td>
<td>104.5</td>
<td>100.8</td>
</tr>
<tr>
<td>March</td>
<td>108.1</td>
<td>105.8</td>
</tr>
<tr>
<td>April</td>
<td>108.6</td>
<td>106.8</td>
</tr>
<tr>
<td>June</td>
<td>116.1</td>
<td>112.4</td>
</tr>
<tr>
<td>July</td>
<td>127.9</td>
<td>126.2</td>
</tr>
<tr>
<td>August</td>
<td>132.0</td>
<td>131.3</td>
</tr>
<tr>
<td>September</td>
<td>125.2</td>
<td>126.3</td>
</tr>
<tr>
<td>October</td>
<td>136.0</td>
<td>129.6</td>
</tr>
<tr>
<td>November</td>
<td>136.3</td>
<td>127.7</td>
</tr>
<tr>
<td>December</td>
<td>102.4</td>
<td>102.1</td>
</tr>
<tr>
<td>Average</td>
<td>117.1</td>
<td>114.5</td>
</tr>
</tbody>
</table>

*Source: Estimated by N.R.A., Research and Planning Division from data obtained from the Bureau of Labor Statistics. Sample covering about 40 per cent of total employment in the industry.

F. Annual Soft Drink Production

Roughly 5,820 bottlers were operating at the end of World War II, and in 1949, the number climbed to 7,000. ** Competition and rising costs forced many of these out of business, and today there are only some 6,000 bottlers operating. Franchise brands have decreased from 350 before the war to roughly 175. The largest number of bottling plants per capital are in Pennsylvania, New York, Texas, Illinois, California, Ohio, Massachusetts, New Jersey, Wisconsin, Missouri, and Georgia according to The Soft Drink Industry, a brochure prepared by the National Bottlers'
Gazette, an industry trade publication, which appeared in July, 1951.

An allied group of 1,200 industrial firms furnish equipment, supplies and services to these thousands of plants, many of which direct their attention exclusively to the needs of the soft drink industry. All of these contributing factors enable the bottling industry to turn out an annual production with a wholesale value of over $900,000,000 representing 1,015,000 cases of all sizes. Some plants manufacture a single flavor in a standard size bottle, but the majority of bottling plants turn out a variety of products ranging from gingerale, an early Irish import and the industry's first beverage flavor, to various fruit flavors packed in bottles ranging from 6 to 64 ounces in size. Most of the beverages produced and sold are in the 6 to 12 ounce size.

Sales of soft drinks in the United States amounted to $1,500,000,000 in 1952. Estimated production of bottled soft drinks jumped from 771,460,800 cases in 1946, to 1,751,474,000 in 1950 according to figures compiled by the National Bottlers' Gazette. Dollar value for the same years increased from $617,168,600 to $838,488,460. In 1950, the industry encountered difficulties in its attempt to keep profit margins and costs within the traditional 5 cent price. At the same time, sugar prices were rising and competition was strong as the Investors' Reader pointed out in its issue of February 1, 1950.*

* 25, P. 11
Independent bottlers were faced with a shortage of bottles and there was a decline in sales for the year.

Today the outlook for the soft drink industry is excellent. Reasons for the increase in sales include O.P.S. approval of an increase in wholesale prices from 80 cents to 96 cents a case, a tremendous increase in the number of vending machines, which now account for one fourth of total sales, and uncommonly hot weather for the past few summers, which always boosts the sales of soft drinks.

Of 766 bottlers participating in a current survey published in the National Bottlers' Gazette, * 86 per cent reported sales increases in 1953 averaging 16 per cent. The majority reported their good showing in a large part in increased advertising and merchandising and product improvement.

1. Foreign Market

The soft drink habit is spreading fast abroad. Most American firms operating in the foreign soft drink field were mild experimenters before the war. ** Natives learned to drink soft drinks from American soldiers, and before the war's end, soft drink plants began to spring up in United States-occupied areas such as Germany, Austria, Italy, and Japan. When the soldiers left, cola, gingerale, and fruit beverages were vying with German beer, Italian wine, and Japanese sake for popularity.

* 3, P. 52
** 26, P. 31
Some of the problems of the United States firms operating abroad, such as dollar shortages and foreign exchange controls, have been averted by utilization of the franchise system. Under this system, the American company licenses foreign bottlers of its beverages and gives them advice, but supplies only the syrup for the drink, which is the only source of United States profits, most of which go to the foreign bottlers. Only a few of the larger soft drink producers can afford to enter the foreign field because of the currency restrictions and Government controls, but most of the participating firms report an upward trend in foreign sales and plans for continued expansion.

Syrups and flavors are exported in considerable quantities. Exports of mineral water go chiefly to Canada, Cuba, the British West Indies, Venezuela, and the Philippine Islands. Canada is the principal customer of syrups and flavors.

Canada is followed by Mexico, Panama and the Canal Zone, and the Philippine Islands. New York handles the largest share of exports of mineral water, followed by Florida and San Francisco. Fruit juice exports leave this country especially through custom districts in New England and New York State. New York is the leading port for the export of flavors and syrups. Los Angeles, San Diego, the Michigan custom district and New Orleans have been important competitors.*

* 3, P. 4
G. Regional Variations In Consumption And Sales

The Agricultural Research Administration of the United States Department of Agriculture, surveying families in a cross section of cities during one week in the spring of 1948, found that urban families spend an average of 30 cents a week for bottled soft drinks, amounting to about 1.3 per cent of their total food budget.* In general, the quantity and amount spent for soft drinks increased slightly with rising income, although the trend was irregular. Over 80 per cent of city families in the sample with incomes of $7,500 and over used bottled soft drinks at home one or more times during the survey week, or almost twice the percentage of families with incomes of lower than $1,000.

The Bureau of Advertising projections, dealing only with purchases made for home consumption, showed the highest per capita consumption of soft drinks in New York City, Southeast, South Central, and Central sections.** These four regions, with 34.9 per cent of the total families, purchased 47 per cent of soft drinks. Purchases throughout the United States were predominately in bottles under 16 ounces in size; the small size accounting for 78 per cent of total purchases.

In April, 1950, a study of subscribers to Cooper's Farmer showed 81 per cent of respondent families were users of bottled soft drinks.*** When questioned on the kinds of bottled soft drinks served, 52.2 per cent mentioned cola, 44.7 per cent soda, 37.3 per cent gingerale.

* 9, P. 8
** 24, P. 52
*** 9, P. 11
A survey of market baskets in self-service supermarkets was conducted by Country Gentleman in November of 1951.* The study showed that fewer farm families bought carbonated beverages (excluding ginger ale and soda water) than city and small town families, but the average number of bottles they purchased was greater than for either of the other classes.

The 1951 Country Gentleman's survey of soft drinks in rural houses indicated that 73.7 per cent of the respondents had soft drinks in their homes at the time of the survey.

In 1951, The Curtis Publishing Company's continuing study of brand preferences for grocery store commodities found that 80.5 per cent of United States housewives used carbonated beverages of some type in their homes, rural homes accounting for 79.4 per cent of use and urban homes 81.1 per cent. The East South Central region led with 91.1 per cent of homes using carbonated beverages, second was New England with 87.5 per cent, followed by the Southern Atlantic, Middle Atlantic, West North Central, East North Central, Mountain, and Pacific regions. The families possessing the highest standard of living used slightly more of this commodity than other classes surveyed. Those with college training used more than high school or grade school levels, and housewives under 30 years of age purchased more bottled carbonated beverages than any other age group.**

* 9, P. 12
** 9, P. 12
V TONNAGE OF SOFT DRINKS EXCLUDING CONTAINERS

IN THE SIX SECTIONS OF THE COUNTRY - 1946*

<table>
<thead>
<tr>
<th>Section</th>
<th>Tons</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Atlantic</td>
<td>1440</td>
<td>11.7</td>
</tr>
<tr>
<td>East North Central</td>
<td>5375</td>
<td>43.9</td>
</tr>
<tr>
<td>South Central</td>
<td>1155</td>
<td>11.9</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>220</td>
<td>1.8</td>
</tr>
<tr>
<td>West North Central</td>
<td>1690</td>
<td>13.8</td>
</tr>
<tr>
<td>Western</td>
<td>2070</td>
<td>16.9</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>12,250</td>
<td></td>
</tr>
</tbody>
</table>


H. Distribution

Intensive development of the home market offers a large sales potential to the soft drink industry. Major outlets for home purchase include grocery stores, delicatessens and so on. Outlets for on-the-spot consumption, which is said to account for roughly 50 per cent of sales, range from drug stores, to army camps, resorts, roadside stands, gas stations, schools, factories, recreation and sport centers, hospitals, airports, and so on. The market has been expanded in recent years through the installation of coin-operated automatic merchandising equipment, which has already been mentioned as a valuable selling aid for soft drinks.

When questioned on their usual place of purchase, respondents to the Country Gentleman survey of soft drinks in rural homes mentioned

*3, P. 3
***26, P. 18
grocery stores, self-service super markets, gas stations, general stores, beverage distributors, drug stores, and co-ops in that order.*

The Consolidated Consumer Analysis, a digest of product use and brand preferences based on newspaper surveys in 15 metropolitan markets from coast to coast, included in the 1952 report a question on the places where soft drinks are purchased. The leading outlet for soft drinks was the grocery stores, followed by beer stores, drugstores, and delicatessen stores.

I. Experimentation With New Type Containers

Although the Pepsi-Cola Company of Alton, Illinois has been canning its soft drink for four years—the tin can's offense is generally considered to have begun during the summer of 1954 when New York's Cantrill and Cochrane Super Corporation began canning its Super Cola, gingerale, root beer, grape and club soda. Some of the other soft drink makers soon followed its lead. By the end of 1953, there were five bottlers using cans. Their estimated can consumption was 130,000,000.

By July, 1954, there were over 40 plants canning soft drinks. Can consumption by the soft drink industry is estimated to be between 750,000,000 and 1,000,000,000.** This is still small compared with the estimated 28,000,000,000 bottles used in 1954. But the tin can's toe hold is fast becoming enlarged, amidst predictions that it will eventually win as much or more ground from bottles in the soft drink packaging field as it has in the
realm of beer.

The can makers are aglow, of course, over this new market for their product and now there are indications that some food and vegetable canners may decide to give today’s producers, bottlers, and canners of soft drinks some competition in the marketing of canned soft drinks.

There are at least eight important soft drink bottlers now using cans on the West Coast and more are joining the ranks. The Nehi Bottling Company of Billings, Montana started putting out orange, root beer, grape, and black cherry in the summer of 1954 for distribution in four Western states. This was the first Nehi bottler in the country to use cans.

Hoffman Beverages began marketing Tap-A-Cola in Rochester and Syracuse, New York in the spring of 1954 at a price of 2 cans for 25 cents. (Canada Dry also sells at this price, or 3 cans for 37 cents.)

1. Effect of Cans on National Corporations

Some of the biggest names in the industry are waiting to see how can beverages will be accepted by the public. The leading one, of course, is Coca Cola, which sold about 14 billion bottles in 1953, or half the industry’s total for that year. A Company official admits Coca Cola is keeping its eye on the trend to cans and is studying all the problems that would be involved in any switch, but he claims no plans are now under consideration for franchising Coca Cola bottles to turn out
canned Cokes.*

H. L. Bent, Executive Vice President of Pepsi Cola, whose brand ranks second, says: "The use of cans in the soft drink field is being carefully studied by Pepsi Cola, and research is being carried out both on the cans themselves and the marketing of them. Pepsi Cola will be ready to swing into action if and when the situation warrants it, but no such action is contemplated at the present time."

One reason for Pepsi Cola's caution is an earlier experience that it had with cans. In 1950, the Company tried canning its drink but, with the exception of the Alton, Illinois bottler, who is still turning out canned pepsis, the scheme was soon dropped. Pepsi Cola officials do not like to talk about that experience, but it is generally accepted that the canned container was priced too high at that time and the profit margin for the bottler and grocer was too narrow.

Other big soft drink makers, including Seven-Up in St. Louis and Dernor in Detroit, are not tipping their hands yet, though it is known they are experimenting with cans in their testing labs. In some cases, the soft drink producers claim they would like to use cans but they cannot find the right type of lining.

C. M. Lamason, General Manager of the franchise division of the Charles E. Hires Company of Philadelphia, declares his

* 13, P. 137
Company has been testing cans for the past three years, but "to date, no inner lining has been developed that will protect the distinctive flavor of Hires Root Beer. Using the present cans, a significant iron "pick up" occurs in as few as 30 days, resulting in a metallic taste that completely changes and distorts the subtle tang of our blend of natural roots, barks, and herbs."

To protect the taste of its product and prevent it from taking on a metallic flavor, Centrill and Cochrane equips its cans with an inner lining of soft wax. Others use liners of vinyl and other substances.

Different soft drink producers use differently shaped cans too. The Super line of soft drinks comes in a can with a crown top, shaped in the manner of a conventional beverage bottle. Can-A-Pop comes in a flat topped can that looks like a beer can, as does Cott. Canada Dry cans have cone-shaped tops.

William C. Stalk, President of the American Can Company, reflects the enthusiasm of the can makers over the new market that has suddenly opened for their product. He estimates the industry will have to produce an additional 12 billion to 13 billion cans a year to meet the demand of the soft drink makers, if the pattern of the brewing industry's use of cans is followed. That would be a one-third expansion of the present output.

* 13, P. 166
requiring large capacity expansions.

Hoffman Beverages is one of American Can Company's customers, the Continental Can Company is supplying Gantrill and Cochrane, the National Can Company is supplying Mason, the Pacific Can Company is selling to eight West Coast soft drink canners, and the Crown Cork Company is supplying Canada Dry and Cott.

2. The Effect of the Use of Cans Upon Bottles

Bottle producers and bottlers naturally enough, are wrought up over the soft-drink-in-a-can trend. At least one bottler's group, the California-Nevada Manufacturers of Carbonated Beverages, is fighting it with big newspaper advertisements proclaiming, "It's clear as crystal—the finest soft drinks always come in bottles". The ads go on to extol two particular virtues they claim bottles possess: "They're 'in good taste' (the ads claim they look better than cans on a serving tray), and glass won't alter the taste of the drink."

Proponents of the can retort by claiming such advantages to consumers as these: Cans take less space in the refrigerator than bottles; they are lighter than bottles; they cool faster in the ice box; there is no breakage problem, particularly with children; and there is no problem of returning empties and collecting deposits.

Robert K. Rogers, Secretary-Treasurer of Can-A-Pop, claims bottles have lost as much as 20 per cent of their business to canned drinks in areas where competition is the most intense.
This can trend, he says, may accelerate the decline in the number of bottlers, which dipped to the present 5,800 from a peak of 7,500 in 1967.*

On the other hand, J. J. O'Shaunessy, a glass bottle producer and Sales Manager of the Owens-Illinois Company warns: "If the soft drink industry adopted the non-returnable container on a very large scale, it could well find itself in the position of the brewing industry, whose membership ranks have already been reduced by 42 per cent in the past eight years as the industry switched from a local industry to a few national organizations because cans are smaller and more compact than bottles and can be shipped more easily and stacked more easily—these were just as important factors in this shift in beer shipping as the fact that the containers were non-returnable. Metal containers represent about 25 per cent of the packaged beer sold in the United States. The can has had an 18 year growth in this field."

Some of the bottlers hear the introduction of canned soft drinks may bring the doom of the independent bottler from a different direction. Frank Callisch, owner of the Nehi Bottling Company of San Jose, California, thinks the big fruit and vegetable canners are a very big threat to his future business. He says: "Don't think for a minute these canneries will sit by and let us move into the canning business. They have a slack season they would just love to fill in, and they are set

* 13, P. 137
up for business. They have the machinery. They have brokers all over the country. They have transportation systems and warehouses too." He claims he knows several canneries going into the soft drink field.

At least one big can maker agrees with the San Jose bottler. "We have received several inquiries from companies that package food lines for information on the technical side of canning soft drinks", he says, "it is obvious they are interested, but just what they will do is still a mystery."

The attitude of retailers toward the canned soft drink trend is mixed. In Los Angeles, the Alpha Beta Food Markets Incorporated, operating 26 stores, has eliminated as many bottled drinks as it believes is possible. It has discontinued all "splits" (small bottles) except Coca Cola and Seven Up.

On the other hand, there are some chains that complain that their profit margin on canned soft drinks is too thin. Others note that in areas like some parts of the South, where a bottle still costs only 5 cents, it is almost impossible to sell a canned drink for 10 cents or more.

3. The Use of Paper Containers Explored

Paper container makers, too, have their sights trained on tin and glass container markets. "For several years", says the spokesman of a big paper company, "we have been working on a paper container for soda pop, and when we master that we will

*12, P. 85
have to look at the beer market."

Can makers figure the average American family bought 788 cans of food items in 1953. The breakdown is as follows:

- 282 fruit and vegetable cans
- 96 evaporated milk cans
- 86 fruit juice cans
- 48 coffee cans
- 41 meat and poultry cans
- 34 seafood cans
- 16 shortening cans
- 153 beer cans
- 26 miscellaneous containers of food items

The canned soft drink trend will now boost these consumption figures, they are confident.

J. The National Price Policy for the Soft Drink Index

No matter from what angle it is viewed, the soft drink industry is a highly competitive field. In that statement lies an explanation as to why those companies vying for national markets for their products, packaged in 6, 8, or 12 ounce bottles, held so tenaciously to a price of 5 cents. This was particularly true insofar as the cola drinks were concerned. Coca Cola, the predominant factor in that field, steadfastly held the price of its 6 ounce bottle to 5 cents.

The question confronting competitors was: How much of their markets would they lose if they were to boost the price level to where they could earn a decent margin of profit? All this went on in a period when the cost of everything else—wages, materials, transportation, and taxes, were in an upward spiral.

Pepsi Cola endeavored to improve its position by supplementing its 12 ounce bottle with one containing 8 ounces for on-premises
consumption in stores, roadside stands and other places as well as
through vending machines. Other cola drink producers were forced to
go along doing business on the traditional nickel basis. Canada Dry
and Hires were in a little different position. Both of these
companies could raise soft drink prices on syrups sold to soft drink
vendors and on the smaller bottled products without fear of being
accused of heresy. This they did, but only moderately in recognition
of the competition from local manufacturers of soft drinks.

Incidently, these local manufacturers have been, and no doubt
always will be, a factor to be considered by soft drink manufacturers,
who will be, a factor to be considered by soft drink manufacturers,
who developed national markets and continually endeavor to participate
in these markets to a greater extent. In almost every area across
the nation there are bottlers of soft drinks that are sold in
some of the chain food and other grocery stores at prices that
go as low as 10 cents for the large 25 ounce bottle. Consumers,
sensitive to price appeal, undoubtedly purchase these lower priced
beverages at all times.

1. Lower Priced Versus Higher Priced Beverages

During periods when our economy is running strong, the
majority of consumers will regard higher priced products as
being of a higher quality and manifest their preference for
them by actual purchase. Under more stringent economic
conditions, this latter group of consumers may suddenly find
that their palates can sense little if any difference between
the higher and the lower priced products. Local bottlers of
private brands are not burdened with comparatively long-haul shipping charges nor by intensive advertising campaigns requiring heavy appropriations.

Competition from these lower priced soft drinks has not been severe enough to retard the growth of the large companies. The competition, however, is always present and is a factor, which must be recognized where consideration is given to adjusting prices upward. This has not been the main reason for the reluctance of soft drink companies to mark up their products. They have been governed mostly by fear of losing sales to their national competitors. This applies particularly to the cola makers, who distribute substantial gallonage in syrup form to soda fountains and who are intensely interested in the "transient" drinker, that is, the individual who pauses at the vending machine in a railroad station or subway for refresher.

Over-the-counter sales of soft drinks in bottles, both large and small, has always been an important market for soft drinks. It is quite possible, that both by the bottle and by the cup, the vending machine will eventually prove a bigger outlet. Such machines have proved highly popular in industrial plants, factories, schools, stores, terminals, and theaters, and no doubt, other spots for them will be found as they become more popular with the consuming public.

2. New Sales and New Earnings of National Bottling Companies

After a re-vamping of the Pepsi Cola Company in 1950, a
sales improvement of a sizable nature first became apparent in 1951, for which year the volume amounted to $49,000,000,000, which was approximately $9,000,000,000 more than 1950 sales. This is quite a substantial jump considering that in the same period, the much larger Coca Cola Company's sales increased by $10,000,000,000. On a per share basis, the Pepsi Cola Company in 1951 earned 145.75 cents. Although this was more than twice the 1950 earnings on shares and shows the good effect of the new management, it is a long way from the Coca Cola Company's net of $6.11 a share on $225,000,000,000 in sales or, for that matter, the Canada Dry Company's $1.03 a share on sales of $61,000,000,000. The Nehi Company, on sales of $10,100,000,000, earned 89 cents a share in 1951.*

None of these showings are what could be called satisfactory, not even that of The Coca Cola Company, which in 1951 earned $7.41 on sales of $215,000,000,000. High operating costs have materially reduced profits and the inroads upon earnings by increased taxes make the net return even less. Making something for 5 cents and selling it for 5 cents is simply swapping nickels, the Pepsi Cola Company's first quarterly report for 1951 substantiates this. Its sales for the first quarter were $10,100,000,000, which was about $1,000,000,000 greater than in the first quarter of 1950. New earnings in the 1952 period were equal to 3 cents a share.

* 22, P. 527
First quarter sales of the Coca Cola Company were up almost $3,000,000,000 from $2,000,000,000 in the 1951 period, and yet the net of 96 cents was no improvement over the 86 cents earned in the 1950 quarter. The same thing applies to Dr. Pepper.

Sales of that Company, in the first quarter of 1952, were up by $300,000 from the first quarter of 1951. Net in both periods amounted to 18 cents a share. The Canada Dry Company, in the first half of 1952, did $31,000,000,000 in net sales, or a little more than $2,000,000,000 in net sales better than it did in the same period of 1951, but the gain in net sales failed to find reflection in the per share earnings of 33 cents, whereas in the previous half year, net sales were equal to 48 cents a share. Hires Company's sales, for the first quarter of 1951, were up $13,000 and the deficit increased to 63 cents a share. In the same quarter of 1951, the deficit amounted to 19 cents per share. *

* 22, P. 527
III Corporations.

A. The Cott Corporation

1. History

The Cott Beverage Corporation of Manchester, New Hampshire, is a franchise bottler of the John Cott Company of New Haven, Connecticut. Early in the 1940's, when the Cott Beverage Company of New Haven began its expansion, it was looking for franchise dealers, who would buy their syrup from them. Silver Brothers of Manchester were distributors of Ruppert Beer for northern New England. Here was a Company already set up for the distribution of this product over the large area of northern New England. Warehouse space and the proper transportation and delivery facilities were already available. All that had to be set up was the bottling plant. This was done and the Silver Brothers were in business. They were to cover the states of Maine, New Hampshire, Vermont, Massachusetts, New Jersey, and all of Canada. Here was a promotionally minded outfit that had big ideas for this new product. They had a product that was of the highest quality while maintaining the true fruit flavor of the fruit that went into their syrup. This was a big competitive advantage, for up to this time there were few companies that were able to capture the true flavor of the original fruit. The Company was to undertake a program of extensive advertising and merchandising in order to bring this new product to the attention of the public. After this was done,
they felt that they could win the response of the public due to the high quality of the product and its distinct true fruit flavors. This campaign was a success and soon the name of Cott Quality Beverages was to be associated with the finest in soft drinks. Cott's was a success.

From the Manchester warehouse and bottling plant, a string of plants was to be erected throughout the franchise area. A plant was set up in Somerville, Massachusetts to serve the dense metropolitan Boston area. This plant soon proved to be inadequate. An additional plant was set up in Natick, Massachusetts in order to supplement the Somerville plant which was already producing at capacity, having night and day shifts. It was decided that the Somerville plant would produce only full quart sizes and that all other sizes would be produced at the Natick plant. From this Massachusetts expansion, the Company next set up a plant in Portland, Maine, which was to serve the eastern Maine area. New Hampshire and Vermont were to be serviced from the Manchester plant. Special freight cars were loaded at the Manchester plant for distribution in the New Jersey area. The Company has recently built a plant in Montreal to handle the Canadian market. As of yet, there has been no attempt to cover the whole country, but plans are under way to expand to the Western provinces.

2. Product Policy

Cott has one of the most extensive lines of flavors and sizes in the industry. There is no other Company in the area
that produces the variety of flavors in the 5 different types of packages. These include both 32 ounce returnable and non-returnable bottles, 12 ounce non-returnable bottles, 7 ounce returnable bottles, 12 ounce cans, and a seven-flavor, sugar-free line that comes in 12 ounce non-returnable bottles. This may be one of the reasons for the success of the Company. No other Company has been able to come out with such a variety of flavors and sizes and still been able to maintain the high quality of flavor. This, the Company has been able to do because they do not use artificial flavors. Each one of the flavors is extracted from the original fruit that the drink represents. Most other soft drink manufacturers have had to use artificial flavoring in attempting to produce the many exclusive flavors that Cott offers.

3. Selection of New Products

Being a new Company, there is very little market research done either by the Company or any other agency working for the Company. The Company's success in adding to its line is attributed to the genius of the Silver Brothers, especially the President, Henry Silver. Here is a man who is able to tell what the public wants just by a "feel" that he has for the public's tastes. An example of this is cited by Sam Wiseman, General Sales Manager of the Company: In June of 1954, John Cott, who manufactures the syrups for the entire nation, came up with the idea that a ginger mint flavor would be a success in the
area. Henry Silver argued that once the novelty of the flavor had worn off, the public would not come up with repeat purchases. The old saying, "you can always sell vanilla" applied in this case.

The Company began producing the new flavor and backed it up with an extensive promotion campaign, which included radio and television programs, billboards, newspaper ads, and point of sale advertising. Despite this advertising, after the novelty of the flavor wore off, sales dropped greatly. People just did not like the flavor. The opposite is true of another flavor brought out just before the ginger mint. Henry Silver "felt" that if the Company should introduce a new summer mixer which would replace the traditional Tom Collins Mix, which is used as a mix for cocktails, the public would welcome the change. Consequently, the Company came out with Half and Half, which is a blend of grapefruit and lime flavoring. This mix was introduced by the traditional high pressure promotions that accompanies most of the Cott line. Not only was the mix accepted as a cocktail mix, but proved to be quite popular with children and it turned out to be one of the best year 'round sellers.

Because the Company has been so successful under the direction of the Silver Brothers' "feel", they do not feel that it is necessary for the Company to undertake any kind of market research before introducing a new product. If the new flavor is not accepted by the public, it is quietly withdrawn.
and something else replaces it.

1. Addition of a Lower-Priced Line

In an interview with Sam Wiseman, the question was asked if the Company considered the possibility of adding a lower-priced line that would not compete directly with the already existing high quality line. The possibility of doing this under a different brand name or doing it as a separate corporation was mentioned, but the only reply to the question was that the Company could not respond to this question or any other question along that line.

5. Simplification of the Product Line

There is some question as to whether the Company may be carrying too many flavors. This is especially felt by the distributors who are plagued with having 22 flavors coming in such a variety of sizes. This makes warehousing difficult for the small distributor. He is compelled to carry a large inventory in order that he will have all the flavors in all the sizes. This ties up a lot of money in inventory. The result is that many of the slower moving flavors may stay in his warehouse for some time. He may sell only a case or two of Red Birch a week, yet, he is compelled to carry it in stock in order that he can give the proper service to his customers. Service is one of the biggest selling points that the Company offers and will be discussed in detail later in this paper.

Another headache of having so many flavors in so many
sizes is the problem of loading the trucks. After the distributor's salesmen come in at night with their order slips, these slips are routed for delivery the next day. The flavors are then loaded on the trucks in the order that they will be taken off. For example, one store may order ten cases of ginger ale, five cases of orange, and two cases of grape in quart sizes, as well as two cases of root beer, and one case of cherry in the seven ounce size, along with a few flavors in the twelve ounce size and in cans, to say nothing of the sugar free orders. This means that the order will have to be put on the truck in the order that it will be taken off. In other words, it is not possible to put all flavors of one size in one part of the truck and all flavors of another size in another part of the truck because of the difficulty of getting at them. What this all amounts to is that much time and energy is taken to load the trucks at night or in the morning. Coule this with the fact that all these flavors and sizes have to be taken out of the warehouse and put on the trucks, and it all adds up to an expensive time consuming operation. Because of the multitude of flavors and sizes, it is not possible to load the trucks by means of fork lift trucks, which carry so many cases on pallets, as is the case with distributors who do not have to carry so many different lines.

Another consideration of the multitude of products and sizes is the fact that many of the flavors are competing with each other. Take the lemon line for example. This is the line which is
usually associated with cocktail mixes. Cott puts out the following flavors in the citrus line other than orange: Lemon and lime, (which is not a strict cocktail mix, but more of a children's soft drink), lime rickey, grapefruit and lime, and Tom Collins Mix. Each one of these is used as a mix for gin as well as soda water, quinine water, and gingerale, consequently, each one of these products is competing with the other as the mix for gin. Is this good or bad? Cott thinks that it is good because they have a variety to offer to the public that the competition is not able to offer, while the distributor looks at each addition to the line as another means of having his capital tied up in stock that is not as fast moving as when the line was not so diversified.

6. Containers and Packaging

The Cott Company puts out the following types of packages: 32 ounce returnable and non-returnable bottles, 12 ounce non-returnable bottles, 7 ounce returnable bottles, 12 ounce sugar free bottles, and 12 ounce cans. This variety of sizes is consistent with the Company's policy of diversification. By having such a variety, the Company believes that this gives them a competitive advantage. If the Company had its way, all bottles would be of the throw-away variety. This would result in a big saving in handling for the Company, plus a bigger saving in time and expense for the distributors.

Perhaps one third of the total time taken for delivery of a case
of soft drinks to a retail store is taken up by the handling of the empty cases. The distributors dislike handling the empties since they do not make any money doing this work. This is just a service that is necessary to perform and they have no other alternative but to cart the empty cases back to the bottling plant. This necessity of picking up empties also limits the amount of space that can be used on the track for delivery of the full cases because as many full cases that go into a retail store, empty cases come out.

If all non-returnables were used, the above would not be the case. The truck drivers could deliver almost twice as much in one day, because the truck would hold twice as much (the returnables not taking up their usual space), and the delivery time would be cut by over one third. The consumer would also make savings in both time and money. They would not have to be bothered paying the deposit of 5 cents on a 32 ounce bottle, nor would they have to be bothered taking the bottle back to the retail store in order to redeem their deposit. Any bottle that gets broken around the home means that a nickel is wasted. The question is: Why doesn't the industry go completely non-returnable? The answer to this is cost.

In order to purchase the non-returnable bottles for twelve 32 ounce quarts, the Company has to spend nearly 70 cents, compared to 10 cents for returnable bottles. The returnable bottles are used about thirty times, which means that the cost
of the bottle, which is more expensive than the non-returnable, is spread over many uses of the bottle.

In order to introduce the non-returnable bottle, so that it would replace the returnable bottle, the industry would have to get together and act as a unit, each company switching to non-returnables at the same time. This would mean that the price of the soft drink would rise considerably, if the distributor, manufacturer, and retail operator were to get the same markup as they obtained with the use of the returnable. This would have an adverse effect on the market for a time, but if all companies in the industry went up at the same time and with the same percentage of increase, the market would eventually come back to its original position.

If this non-returnable situation were handled correctly, all companies would have started out using non-returnables, but this was not the case. It is very doubtful that the industry will adopt non-returnables as is suggested, since no one company will take the initiative and take the chance on the tremendous loss of sales. Consequently, it is doubtful that the day will ever come when non-returnables will replace returnables as the main package. As it now stands, today the cost of non-returnables is great. The price that the distributor charges the retailer for a case of twelve 32 ounce bottles of Cott Beverages in the returnable size is $2.60 a case, with a dollar back if the case is returned with the twelve
bottles in tact. Therefore, the price of the contents alone is $1.60. Compare this with the price of twelve 32 ounce non-returnables. A case of non-returnables cost the retailer $2.23 with nothing back on the case. There is a difference of 63 cents for the same amount of soft drink. The retailer naturally passes this cost on to the consumer, who is reluctant to buy the non-returnable size at such a price just for the convenience of being able to throw away the empty bottle.

7. Distribution Policies - Selection of Channels of Distribution

The usual method of distribution for the Cott Company is through independent distributors, who purchase the product from the plants mentioned and distribute it independently of the Cott Organization. Each one of these distributors is an independent businessman working in close cooperation with the Sales Department of Silver Brothers. Only under unusual circumstances does the Cott Company operate a distributorship. If, for example, the Company feels that a distributor is not doing an adequate job, the Company will buy the distributor out at a fair price and then run the distributorship itself until it has found some person who has the capabilities of running such an organization. Such circumstances are usually only temporary.

8. Company Control of the Distributor

When a distributor takes on a Cott line of beverages, for a certain territory, he does not get a written contract. The
Company does not give any franchises of any sort. The distributor is free to run his business as he sees fit, but the Sales Department of the Cott Company keeps a close check on his activities. He is allowed to charge any price he wishes to the retail customer within reason, but only in a few cases is he foolish enough to try to cut prices or to increase them. In most cases he charges the suggested retail price. The Company does not attempt to dictate any price policy, but, nevertheless, it is in a position to apply certain pressures.

As in many companies, the Cott Company's Sales Department does not feel that the distributors are doing an adequate job. There may be several reasons for this. If the Cott Company would allow an increase of 10 cents a case, it is believed that many of the problems of the distributor would be solved. This increase would be enough to allow the distributor to work with enough equipment and enough personnel so that he would be able to do the correct job of distributing the product. Under the present setup of charging $2.00 a case and allowing the distributor only 60 cents gross profit, the distributor is faced with such a narrow margin that he has to cut corners in many cases in order that he might make just 5 cents net profit per case. If 10 cents more were allowed on the case, a more reliable and higher type of distributor with more capital would be attracted to the industry. He would be able to hire a higher type of salesman, who would consequently do a better job of selling
and thereby ultimately increase Cott's sales. Under the present setup, the distributor has to underpay his salesmen as well as his drivers, helpers, and warehouse help. This is not the fault of the distributor. What can be done about this? At the present time, the Cott Company does not feel that it can give the distributor a better price. The Cott Company is undertaking extensive advertising and promotional campaigns that are costing a great deal of money. The Company is also expanding at a rapid rate. Perhaps in the future, after the product and Company have established themselves, they will be able to give the distributor this dime more a case that is suggested here.

9. Competing on Service

It is almost impossible for the distributor to compete on a price basis, since under the present margin allowed by the Cott Company, he is just able to net about 5 cents a case. If the distributor attempted to cut prices to the retailer and attempted to compete on this basis, he would soon find himself out of business. Consequently, the distributor has to try to compete on a service basis rather than a price basis. Besides, competition on prices is perhaps the poorest type of competition. How important is service in the beverage industry? Service is considered next to price in importance, and, in some cases, the retailer would rather have better service than a better price. Service entails much more than
just placing the product on the retailers' shelves and putting up display material. This is very important, but, if the distributor is going to do the job correctly, he will have to go much further than just doing this. Some distributors attempt to make savings by cutting this out, or by servicing only the larger chain stores in this manner. In dealing with the chain stores, the distributor is almost compelled to place the product on the shelves, set up displays, and even, in some cases, put the chain store's price stamp on each bottle. But in the case of the small independent store, the distributor is able, in most cases, to impose his will upon the small retailer to cut down on any actual work in the store. Here is where competition can come in. The distributor cannot afford, because of his low gross margin, to service all stores in this manner and he soon finds that he is losing his customers to some of the other national producers. There is some question at this point, as to who should do the actual servicing of the stores. Should this be done by the salesmen, or should it be done by the drivers and their helpers. Some of the distributors use the latter, but it is considered more advisable to have the salesmen do this work. If the driver had to stop and spend time putting the bottles on the shelves of each store, he would not be able to make many calls in a day. The salesman is in a better position to create good will by spending a little time at each call going over the merchandise on display and seeing
that it is kept dusted etc. This is all an expense, and many people consider that the salesmen should not have to do the work of the store clerks, but, if competition is doing it, any company will have to meet this type of competition if it is going to stay in business.

There is much more to servicing than just fixing displays. Perhaps one of the biggest questions concerning servicing is that the distributor must have the right flavors at the right time. If a store keeper calls up and wants a large order of some one of the less popular flavors in one of the less popular sizes for some special reason, how quickly is the distributor able to get this down to him? This is very important for, if the store keeper has to wait while the distributors send a truck up to the bottling plant, which may take several days before the distributors have a truck free, he will soon get tired of the delay and bring his business elsewhere. This is all a matter of having enough of a variety and depth of inventory.

The Cott Company requires that each distributor keep at least one week's supply of inventory in his warehouse at all times, but, in many cases, the distributor will attempt to save investment in inventory by attempting to buy from hand to mouth. He will attempt to anticipate what his orders will be for the next few days, and then order from the Cott Company on that basis. Consequently, he is caught off guard when all of a sudden some hot spell comes along during the summer, and he finds that he cannot fill his orders or that he is short of some important flavor.
He does not have the time or the trucks available to send to the bottling plant to pick up a new order. This all means that he loses sales and creates ill will because the storekeeper was not able to get the soft drink when he needed it.

Cott makes no attempt to dictate to the distributors on any service policy. If a retailer complains to the Cott Company that he is not getting the kind of service that he thinks he should be getting, then the Cott people send a missionary man down to find out what the trouble is. It must be realized that while Cott does not dictate any policies along this line, as such, but leaves most of this up to the discretion of the distributor, nevertheless, Cott is in a position to bring pressure to bear on the distributor. If Cott thinks that the distributor should be doing a better job of servicing, then suggestions are made as to how this could be improved. In most cases, the distributor knows the position that he is in and follows these suggestions.

Without a doubt, chain stores get better service than do the smaller independent stores. Many distributors, especially the larger ones, have a special man whose only job is to see that chain stores are kept satisfied. Most of the promotional work and special displays that are set up in the chain stores are put up by special display men sent out by Cott rather than the work of the distributor's regular chain store man. In some cases, the distributor's man works with the man sent by Cott, but in other cases, and in most of the cases, the chain store
man representing the distributor works independently of the Cott display man. If the independent store was large enough, as some of them are, they could demand and get this same service that the chain stores receive, but, in most cases, the smaller, independent store is out of luck. If all the smaller stores would demand, at the same time, that they get the same service, then, the distributor would be forced into giving equal service, but this is not the case. If the store buys enough, the distributor may be forced to give better service, but, in most cases, this cannot compare with the attention that the chain stores receive.

10. Distribution of a New Product

The Cott Company of New Hampshire bottles syrup as well as soft drinks. This syrup is not bottled with the idea that it is to be used to mix soft drinks at the soda fountain, as is the case with many of the large national soft drink producers. The syrup is bottled in 12 ounce bottles designed for home consumption in such ways as waffle syrup, milk mixes, etc. This syrup is not distributed through the regular soft drink distributors. The Company decided that the syrup should have national distribution immediately, consequently, they were not equipped to distribute it through the regular channels. In order to get the desired national distribution, it was necessary to distribute it through grocery brokers and grocery wholesalers. This is the only product that the Company manufactures that is distributed in this manner. This is the same high quality
syrup--it is made in the same manner, and produces the same true fruit flavor as goes into the regular Cott soft drinks.

11. **Sugar Free Soft Drinks**

This topic has been discussed at some length in another part of this paper. The only consideration here will be its effect on the Cott Company, which was one of the pioneers in the introducing of the sugar free soft drink. The Cott laboratories came up with a sugar free soft drink that still captured the same high-quality, true fruit flavor that the Cott Company produced in its original line of soft drinks. Up to this time, all attempts at making a sugar free soft drink ended in failure. It was impossible to make any drink appetizing without the use of sugar. Immediately the Company was faced with many problems in the distribution of the sugar free line. Each one of the States in which the sugar free line was to be introduced has different laws stating as to how such sugar free beverages were to be sold. Some States had laws limiting the sale of such beverages to drug stores, others required special labels that stated that this product was more of a medicinal product than a soft drink. This meant that separate labels had to be used depending on the State that the particular load was going to be sent. This constant changing of labels and the many attempts to circumvent the different State laws created many headaches in the early distribution of the new product.

Nevertheless, because the Cott Company was one of the
pioneers in the sugar free line, it was able to set a price
on the product that gave the Cott Company a higher gross
margin than its regular soft drink line. They also allowed the
distributor a higher markup so that the distributor was in a
position to make a substantial profit on each case that he sold.
Many distributors were able to cash in on this. They set up
special delivery methods for the sugar free line. It was
bottled in 12 ounce non-returnable bottles, which meant that
all the distributor had to do was to drop the cases off at the
retailers' and forget about the empties. The cases were much
smaller than the usually heavy bulky cases of the regular line.
This meant that the sugar free line was much easier to handle
and easier to store. Because the new product was easier to sell
and to handle, the Cott Company decided that the generous margin
allowed the distributor should be an incentive to promote the
new product. Despite this, Cott feels that they are not getting
the desired result. Competitively speaking, the Cott sugar free
line is in a better position than Canada Dry, for example. Cott
sugar free beverages retail at two 12 ounce bottles for 25 cents
compared to one 16 ounce bottle from Canada Dry at the same price.
Both products are equally as good. Cott puts out a much larger
variety than does any other competitor. They offer nine flavors
and are constantly coming out with a new flavor.

12. Direct Selling Versus Selling Through Distributors

The question was asked as to why Cott elected to sell through
distributors rather than to set up their own system of distribution
similar to that set up by Canada Dry, since most of the territories under the jurisdiction of Canada Dry are serviced by their own trucks and they do very little distributing through independent distributors. This question was answered by the statement that the Company eventually intends to do all of its own distribution in a manner similar to the Canada Dry set up. It was not possible to pin the Company down on any specific plans. When the time comes that the Company feels that it is in a position to distribute directly, it will buy out its present independent distributors at a fair price, taking into consideration the time and effort that went into building up the territory as well as any good will that might have been created. At the present time, the Company is not able to state just when it will be in such a position. At the present time, the Cott Company does not do any distributing directly. It does run one distributorship itself, but this is just a temporary situation until they find a capable distributor. This should not be taken as the beginning of a trend of buying out and the taking over of the present distributors. The Company was rather emphatic on this point. This idea of using independent distributors was thrust upon them because of the lack of capital needed to set up a direct distribution. This is an expensive proposition. It requires a great investment in trucks and warehouse facilities, as well as labor. The labor is perhaps the biggest question. A tremendous payroll is needed to set up Company distribution.
Besides the capital factor, the Company would need an experienced management that was capable of doing the job correctly. Because the Company is so young, they have not been able to enlist or train the proper management. It takes a great deal of experience and know-how to run a Company distribution policy.

13. Requirements For Becoming A Distributor

The two biggest requirements for a man who wishes to become a distributor of Cott Beverages are to have capital and business ability. The Company puts an equal stress on each of these. The Company will not consider a person who is deficient in either of these. As far as capital is concerned, a man has to have roughly $30,000. This figure fluctuates depending upon the size of his territory. It is also imperative that the man be a good business man. Experience in the beverage field is of lesser importance. The man has to have proven ability as a business man, but not necessarily in the field of soft drinks. Cott will undertake to train the prospective distributor until they feel that he is capable of running his own distributorship alone. If the Company should decide to allow him to have a distributorship, it will work quite closely with the new distributor for some time. Every aid is given to him so that he may be successful. The Company will loan some of its salesmen until the distributor is able to hire and train his own selling staff. This presents an attractive proposition to a man who has $30,000 to invest. Here is an opportunity for a man to go into business for himself. But, if he is to make a success of it,
he must be a very good business man. This requires constant
drive and control of the business because of the fact that he
is working with such a narrow margin. As was suggested
previously, if Cott should offer just 10 cents more on each case,
the distributor would have more room in which to breathe. Under
the present situation, many men are reluctant to take on such
a distributorship, even though there is the possibility to make
money. There is also the consideration that some day Cott will
want to distribute directly and will buy out the distributor.
One day, the distributor will wake up and find himself out of
business. After all, he cannot distribute if he has nothing to
sell. The Company is under no obligation to sell to him. There
is no written contract in most cases. There is no implication
meant here that Cott would simply walk in and leave the
distributor high and dry; a fair price would be offered for the
distributorship, but the distributor has no say as to whether
or not he will accept or refuse. He has no choice. Consequently,
this is another reason why Cott may be having difficulty in
finding the desired type of person to become a distributor.
If they offered something more substantial at a better price,
they might have more luck.

11. Pricing and Terms of Sale

Every distributor gets the same price as far as Cott is
concerned. In special cases, where the distributor is located
at some distance from the Cott plants, he is allowed a certain
transportation allowance. No allowance is made for any distributor
performing special functions. Such functions are at the expense of the distributor. In many cases, the distributor is forced to donate to certain charitable institutions, in which case he does so on his own, and may sell at cost or with a lower margin. In the case where the distributor has to sell below cost, Cott will split the difference between the Cott Company and the distributor. Such situations happen more often than one would at first realize. It seems that there are many worthy organizations looking for special consideration. They are always putting on some sort of benefit or another. In the course of a year, this can run into a great deal of money.

The distributor is supposed to maintain a voluntary price maintenance policy. Cott makes no attempt to interfere with the distributor's resale price. Cott suggests a resale price that most of its distributors use. It is up to the distributor to charge whatever he wishes. Because of competition, the distributor is unable to charge more than the usual Cott distributor, nor is he able to charge much less, unless he wants to find himself out of business. The margin is not great enough to allow much price cutting. The distributor must also be constantly aware of any violations of the Robinson-Patman Act, which prohibits the distributor from charging one retailer one price and another retailer another price. Consequently, if the distributor is going to sell at less than the suggested resale price, then he will have to do so with all of his customers, for the law prohibits him from
giving certain customers special prices on the retail level.

15. Discount Policy

The Cott Company's terms are rather strict compared to the local competition. The distributors have to pay cash within seven days with no discounts of any kind. There is no such thing as a quantity discount. No matter how much the distributor buys, he still has to pay the same price. The only discount that is given is when the distributor is forced into giving a special discount to some charitable institution. In this case, the Cott Company will split the difference with the distributor as was mentioned previously.

All this puts the distributor at a competitive disadvantage. He has to compete with companies that give their distributors better discounts and better terms. Consequently, these distributors can pass this on to the retailer, which gives the distributor a competitive advantage. This Boston area is a highly competitive area for the soft drink industry. If the Cott distributor wishes to give better terms than seven days to his customers, he must finance this out of his own pocket. This means that he has to have considerably more than the $30,000 figure stated previously as the capital investment of the usual distributor.

In many cases, the retailer would not bother to carry Cott on such terms, but he is forced to do so because the product is in such high demand. There is a great deal of promotion,
merchandising, and advertising in all media that is constantly bringing the name of Cott before the public eye. Besides this, the Company has a very good product, which results in such a demand that the Company can afford to have such ideal discount policies. But this all makes things very difficult for the distributor.

16. Market and Research Planning

Cott is trying to cover the National market as quickly as possible. They are attempting to do so by setting up franchise bottlers, who cover large territories very similar to the Silver Brothers organization. They have a good product, in a good package, and in a size that is a full half ounce larger than that of their similar competitors, Canada Dry. This comparison is taking into consideration only those companies that manufacture a similar line of flavors and sizes. Many of the large National brands produce only a few flavors in limited sizes. The first expansion of the Company was, naturally, only in the more profitable trading areas. Much of this was determined by the availability of suitable franchise bottlers. Today the Cott Company has franchise bottlers in Florida, Illinois, Texas, and Connecticut, as well as Silver Brothers, with National distribution fast becoming a reality. Consequently, the Cott Company, located in Manchester, New Hampshire, is not the same Company that is located in Chicago. Each one of these is an independent franchise bottler.

As far as the foreign market is concerned, Silver Brothers
has the franchise for the whole of Canada and is the only franchised bottler allowed to produce outside of the United States. It was impossible to obtain information concerning the Company's plans for further expansion of the foreign market. At present, Silver Brothers is constructing a bottling plant in Montreal, which is intended to serve the Quebec and Ontario area, which contains about one-third of the population of the Country. Further expansion in Western Canada is planned at a future date.

17. Sales Programs and Sales Promotion

Silver Brothers employs six men, whose job it is to co-ordinate the selling efforts of the Cott Company with those of the distributor. Each of these men is assigned a special territory within the franchise area and he is responsible for the selling efforts of those distributors located within his territory. All sales promotions and schemes are thought up by the Management of Silver Brothers. These are then passed on to the distributors and their salesmen at sales meetings held at the different bottling plants located throughout the franchise area. During the slow season, sales meetings are held once every two weeks, and during the busy season, about once a month. In this way, Cott is able to exercise a great deal of control over the salesmen of the distributor. There is a great deal of "arm twisting" at these sales meetings. This is thought to be a good method of keeping the distributor's salesmen under control. The distributors do not seem to mind this, because it relieves them of having to do the same thing. There seems to
be a lot of high-pressure selling brought to bear on the
salesmen, which, it is hoped, will result in the same thing
being applied by the salesmen to the retailer. There will not
be any attempt to discuss the relative advantages and disadvantages
of this method of handling salesmen in this paper.

In very few cases does the distributor attempt to conduct
any sales promotional campaign on his own volition. He just
cannot afford to do so. This is all left up to the Cott Company.
Consequently, the Cott Company expects cooperation between the
Company and the distributor and his salesmen. In order to make
this kind of a set up work, cooperation is of the utmost
necessity.

If the Sales Manager of the Cott Company decides to conduct
a special area promotion, he will call in his six co-ordinators
and have them work on the area. They will go around setting up
displays, contacting retailers, or making the rounds with the
distributor's salesmen. No outside help is employed during
such promotions. It is all handled within the present framework
of the Company.

Cott is one of the most promotionally-minded outfits in the
New England area. Here is one Company that has thrown off the
traditionally New England conservativeness that has plagued this
area for so many generations. Here is a very new Company that has
come into a highly competitive field, and in a period of a few years,
has made its weight felt. As was stated previously, this is all due
to the genius of the two Silver Brothers. Unlike many companies, the Cott Company does not drop its advertising and promotional problems in the lap of its advertising agency. All advertising and promotional schemes are the product of top Management in the Company. Consequently, if for any reason a proposed promotional or advertising plan does not go over as expected, the Company does not use the advertising agency for a whipping boy. All blame is taken by top Management. This is one of the reasons the Company has been so successful in its promotional ideas. The Company believes that an advertising agency could not know more about the problems of the soft drink manufacturer than the soft drink manufacturer himself. Besides, the Company believes that an advertising agency, which has several accounts to work on, is not in a position to give the personal attention that is necessary for Cott promotions. The only use the advertising agency is to the Company is to carry out the mechanical steps in the new promotion. As far as the ideas themselves are concerned, they originate from top Management. This is the reason that Cott has been so very successful in its promotional policies. Of course, it must be considered that all companies are not blessed with a Management that is possessed with such a "feel" for public tastes. Link this with the fact that the Company is not afraid to spend money in order to make money. Here is a Company that is going against the many conservative business policies of New England.

Because Cott does not have National distribution at this
point, they have not found it advisable to use media that have National coverage. But, when the Company has decided that the time has come to try to reach the National market, the present methods of regional advertising will be applied on a National scale and the soft-drinking public will be in for an advertising and promotional campaign that will be as unique as any yet tried in the soft drink field. Whether this will be done with the cooperation of the franchise bottlers throughout the Country or by the makers of the syrup, (John Cott) has not yet been determined.

16. Sales Organization and Management

Cott does not have any other salesmen than the six co-ordinators that have already been mentioned. Consequently, the Company does not have to run any type of training program for their own salesmen. But, this is not the case with the dealers' salesmen. In many cases, the dealers are not competent enough to conduct a training program of their own. Each distributor may have as many as six or seven salesmen, although the average is about four. Much of the training of the distributors' salesmen is done by the six co-ordinators. The sales meetings at the bottling plants are a great deal of help in keeping the distributors' salesmen under control. Any new ideas are brought up during the meetings, as well as any problems that the salesman might be facing.

The Company does not attempt to compensate directly the distributors' salesmen. Cott does set up a bonus plan based
upon quotas for each distributor. Each case sold by the
salesmen is worth so many points. Prizes are awarded to those
who get a certain number of points. The top prizes are worth
as much as $300. If there are 48 salesmen competing in a certain
territory, then 42 prizes will be awarded. Consequently, almost
every salesman will be assured of getting a prize. The quotas
are set upon the amount the distributor sold during the same
period of the previous year.

The Company states that the salesmen are the responsibility
of the distributor, because after all, the salesmen are being
paid by the distributor. The salesmen get their pay checks from
the distributor, therefore, they feel that they are not working
for Cott or for the Silver Brothers, but for the distributors.
Therefore, it may be difficult at some times for the Company
to handle the distributors' salesmen. This results in a certain
amount of pressure being brought to bear on these salesmen.
The Company does not attempt to reward the distributors' salesmen
for proficient performance of non-selling duties. This is
left up to the distributor. In many cases, the distributor
makes it clear that non-selling duties are part of the
salesman's job and that he must expect to spend a certain amount
of his time performing them.

Most attempts to increase salesmen's productive time
has met with success, only if there is constant pressure being
brought to bear on the salesmen. If they are allowed to slack
off, they will again become lax in their duties. Consequently,
this calls for a hard-headed Sales Manager, who must be constantly chasing the salesmen. This is the result of the poor pay that these men receive. If the distributor received a better margin, he would be in a position to hire more competent salesmen. Therefore, under the present conditions, there is little that can be done. A man of high caliber will not work for low wages, or if he does, he will not remain very long, staying only long enough to gain experience.

B. Canada Dry

1. A Comparison

Canada Dry draws a sharp comparison between its method of distributing soft drinks and that of Cott, which was described previously. Canada Dry represents what Cott is trying to do, but is still a long way from achieving. The Canada Dry method is the ideal method for any company, but there are not many companies that have the financial resources to distribute in such a way that they get the biggest return for their money. It takes money to make money. This difference will be shown in this section.

Canada Dry was originally a Canadian company, from which it gets its name. During Prohibition, the United States was in need of a mixer that would blend well with the harsh whiskey that was being made at home. All domestic mixes were too sweet or just did not mix well. Canada Dry came down into New York with a gingerale that was not sweet at all and seemed to make even the harshest home brew taste like the good old days.
The Company started bottling in Hudson, New York, and shipping down into New York City. This was a premium gingerale that was bottled in 12 ounce sizes only, 48 bottles to a case, and each packed in straw. Each bottle sold for 25 cents, which was high even for those days. This premium gingerale was a huge success. It tasted so different that people began drinking it straight, and it soon became a popular soft drink, in spite of its high cost. People knew that it was a quality beverage and they were willing to pay the price to enjoy the difference. Canada Dry saw the great potential that their product had, so they decided to expand into a product line that would have a greater popular appeal. They concentrated in the field of mixes, their main lines being gingerale, soda water, and Tom Collins Mix. They brought the price down to a competitive basis, and set out upon a campaign of trying to attain National distribution. Today they are the largest producers of flavored beverages (beverages other than colas) in the world.

2. Product Policy

Canada Dry is second only to Cott in this area for the extensiveness of its line. Canada Dry, like Cott, comes in both returnable and non-returnable sizes. Canada Dry does not have as extensive a line of flavors as does Cott. Canada Dry carries 8 basic flavors along with its three mixes, giving it a total of 11 flavors compared to Cott's 22. These include 28 ounce returnable and non-returnable bottles, 12 ounce returnable and 12 ounce non-returnable in its sugar free line, and 7 ounce returnables.
The question was asked the Branch Manager of the Canada Dry Company of Boston as to why the Company did not come out with a more extensive line of flavors in order that it might compete with the Cott Company, which is the Company's biggest competitor in the area. He answered this question by saying that Canada Dry started out as a manufacturer of mixes and had built up a reputation as a manufacturer of quality mixes and the Company wanted to maintain that reputation. They had been making flavors for many years that were of the same high quality as Cott's yet they did not promote them to the extent that they promoted the mixes. Cott came, a very young Company, with a very good product that had a great deal of promotion behind it. In no time at all, Cott began to make itself felt in this area. Canada Dry began to feel the pressure, first in its sales of flavors and then in its sales of mixes. It was at this point, when the mixes began to be affected, that Canada Dry began to take notice of the Cott situation. Canada Dry started out on a campaign to push its flavors in order that they might retain their sales of mixes. They have been so very successful in this drive on the mixes, they claim, that Cott, for the first time last year, did not show an increase in sales over the previous year. Canada Dry attributes much of this to their better selling methods.

3. Selection of New Products

Unlike Cott, Canada Dry is an old Company with many millions of dollars of capital behind it. Instead of relying upon "feel"
for its selection of new products, as does Cott, Canada Dry has a complete Market Research Division. This Division is run by a separate Market Research Company in New York that does nothing but conduct surveys etc. on the consumer market. Canada Dry is constantly trying to find out what the consumer will want next and what Canada Dry can do about this. They have a very scientific approach to this problem. This may be one of the reasons that have not extended their line of flavros to the extent that Cott has.

1. The Addition of a Lower-Price Second Line

Some time ago, Canada Dry brought out a second line at a lower price. They had some success with it, but for the most part the disadvantages of a lower-priced second line did not warrant its continuation on a National basis. This is not true for some parts of the country. In many parts of the country, the branch plants do produce a second line made to sell at a lower price. In these areas they are quite successful, although once put on a National distribution basis, they do not measure up to expectations. The branch plant in Chelmsford, Massachusetts, for example, produces a second line. This is produced with the idea that it will be sold only in the area serviced by that particular plant. The consumers in that area have come to accept this second line, which is marketed under a different brand, although readily identifiable with the Canada Dry Company.

One of the advantages cited for the addition of the lower priced line was that the Company was able to compete with those
companies that produced a cheaper product. This means that the company is able to get into stores that carry only the cheaper lines. If they attempted to get into such stores with their regular high-priced line, they would not meet with success. There is always the consumer who is looking for a bargain and is willing to pay less for a cheaper product. Consequently, there is always a market for such a product. Canada Dry is able to produce such a low-priced line without any change in its existing facilities. This means that they just have to change the syrup that goes into the product. It will be distributed by the very same trucks, and sold by the very same salesmen that handle the regular line. This means that there would be very little additional expense other than the expense of manufacturing the product. At first glance, this would seem to be an ideal situation, but there are many disadvantages in coming out with a second line of a lower-priced product.

Perhaps the biggest disadvantage is that people come to identify the lower-priced product with the higher-priced product. Consequently, when people find that they do not get the same high quality from the lower-priced product, they immediately say, "What is the matter with Canada Dry?" They do not stop to think that they spent their money on the cheaper product. It is all Canada Dry to them. What this results in, is that the good name of Canada Dry is affected in the minds of the consumers. They begin to feel that perhaps Canada Dry is not everything they thought it was. They then begin to shop around for a substitute.
This is by far the biggest objection to the taking on of a second line priced below the first and of lower quality.

There is no way of hiding the fact that the second line is produced by Canada Dry. If they come out with a different brand, marketed through a separate cooperation, they will fool the consumer for a time, but eventually it will all come out. People have a way of finding such things out in time. Another result of taking on a second line is that this line will compete with the present line. There is no doubt of this.

Another important disadvantage is that the margin of profit is cut by the selling of the second line at a lower price. It is true that it does not cost as much to manufacture such a product, but, nevertheless, the fixed costs remain the same and the variable costs are not so much less that the Company could afford to sell the product at such a price that it would overcome the selling points of the high quality product. It is not possible to allocate a certain amount of National advertising expense to the second line and expect to show a profit. There is just not enough of a margin in it. Consequently, Canada Dry had to discontinue selling a second line on a National basis and limit it to local branches, who could sell the product on a local basis and still make money.

5. Simplification of the Product Line

Compared to the Cott Company, the Canada Dry line is relatively simple. Canada Dry does not attempt to come out with the large range of flavors that Cott produces. Canada Dry believes that its
present line is great enough to compete with Cott. It must be
kept in mind that the only reason that Canada Dry went into the
flavor field as extensively as it has was to protect itself
from being invaded in its mixes. The present line of flavors
is great enough to prevent Cott from making any more advances.
Cott carries such a large line that many of the flavors compete
with each other. Canada Dry feels that this is a needless
expense. They do not believe that a greater variety of flavors
would increase sales to such an extent that it would be worth
while. Canada Dry is content to cater to the institutional field
and the market for mixes. The institutional field buys for the
most part only the mixes and a few flavors. Institutions include
hospitals, hotels, bars, night clubs, etc. Such a market would
not require a wide variety of flavors. At present, Canada Dry
is not contemplating the addition of any new flavors to this line.

6. Containers and Packaging

While Canada Dry does not attempt to compete with Cott
in a variety of flavors, it does equal Cott's policy of
diversification of sizes. Canada Dry puts out its products in
28 ounce returnable and non-returnable bottles, 12 ounce
returnable and non-returnable bottles and 7 ounce returnable
bottles.

Canada Dry gives a larger selection of sizes than does Cott.
Besides putting out every size that Cott does, Canada Dry also
puts out returnable 12 ounce bottles, while Cott sticks to
only the non-returnable 12 ounce size. Canada Dry puts out
a non-returnable bottle in the 16 ounce size that Cott does not carry at all.

Cott has one big advantage, which Canada Dry will willingly admit. The largest size that Canada Dry puts out is a 28 ounce bottle that sells for the same price as does Cott's 32 ounce bottle. When a housewife, with a large family, is buying a soft drink in the larger size, she will look for the biggest bottle especially if she feels that both bottles contain the same quality beverage. The quality between Cott and Canada Dry is comparable. There is not enough difference between them that people will notice. It was this advantage in size, added to the variety of flavors, that gave Cott the advantage for a while. Canada Dry attributes this to be a part of the cause of Cott's fabulous success. But, Canada Dry is striving to overcome this disadvantage in its other sizes. In its sugar-free line, Canada Dry is offering two 16 ounce bottles for 29 cents. Cott offers two 12 ounce bottles for 25 cents. This is having an adverse affect on Cott's sales of sugar-free beverages. This is also a great selling point for the Canada Dry salesmen, who are soliciting new accounts.

The question was asked if Canada Dry contemplated changing over to a full 32 ounce quart in order that it might compete more readily with Cott. The answer was that in the foreseeable future no such plans were being made. In order to do this, it would call for a complete revamping of the packaging of the product. All the present 28 ounce bottles would have to be called in, along
with the wood in which they are packaged. This would run into millions of dollars. It would not be practical for the Company to make this change.

A big selling point that the Canada Dry salesman also uses is that the Company does not require as big an investment in the inventory of the retailer as does Cott. Cott charges 5 cents deposit for each 32 ounce bottle plus 40 cents for the wooden case. Since there are 12 bottles to a case, this amounts to $1 that the dealer has to pay for deposit on the containers. Compare this to Canada Dry. This Company charges 5 cents for each of its 28 ounce bottles plus only 10 cents for the wood. This results in a saving of 30 cents on inventory investment for each case purchased. A retailer can stock more Canada Dry for the same amount of money.

7. Distribution Policies - Selection of Channels of Distribution

Canada Dry is in the position to cash in on the enviable position of being an old established Company with a sound financial position. This means that they are able to capitalize on this to such an extent that they get the greatest possible return on their investment. Canada Dry manufactures their product at their own branches and distributes it directly to the retailer. They have their own fleet of trucks working out of each branch and out of each warehouse. In those parts of the country that do not warrant a branch or a warehouse due to the sparse population, they have set up a method of distribution similar to Cott's. In Northern Maine, for instance, all of
the Canada Dry line is distributed through independent distributors. Unlike the Cott distributors, these outfits carry other lines as well as Canada Dry. Many of them are beer and wine distributors.

This ideal situation allows Canada Dry to reap the profits that ordinarily go to the distributor in the more populated areas, while in the rural areas, Canada Dry is still distributed in order that they can back up their National advertising. This is the position that the Cott Company would like to be in, but it will take some time before this will happen. Canada Dry is a very old established business for the beverage industry. They have a tremendous capital reserve which they use for this distribution set up. In order for Cott to reach this size, they would find it necessary to sell stocks in order to get the necessary capital. If this ever comes about, the Cott people feel that they will lose control of the business.

8. Service and Competition

As was stated previously, it is impossible to compete on a price basis in the beverage industry. Consequently, service offers the greatest field in which the beverage producers attempt to outdo one and another. This makes an ideal situation for the retailer, and many of them take advantage of this. The only reason that some retailers buy from one beverage producer almost exclusively is because of the service he offers. Again it is mentioned that because of the fact that Canada Dry is such a large Corporation, it is in a position to offer many services
and benefits that many of the smaller beverage manufacturers find impossible to offer. Contrasting Cott with Canada Dry, the latter is in a better position to offer a greater amount of service. This is due to the distribution setup of Canada Dry. The Boston branch employs 25 to 30 salesmen. The Company has direct control over these men and can send them to any area that needs the service of a salesman immediately. Cott employs only 6 men, who work with the distributors' salesmen. In this case, the distributor is the boss of the salesmen and the Cott Company can only act in an advisory capacity. Canada Dry can dictate to their salesmen, and, therefore, the Company is in a position to see to it that all of its selling policies are carried out. In the case of Cott, the Company can dictate policies, but can only hope that the distributor will follow instructions.

Another big advantage that Canada Dry has in having its own trucks is the fact that they can be sent out to any customer at any time with any amount. If a customer calls in because he has suddenly run out of ginger ale, Canada Dry will immediately send out a truck with the order. The Company sets a minimum of two cases on such special orders. Even though the Company may lose money on such an order, they will send it out immediately in order that they might build up good will and a reputation of promoting service. Cott is unable to do this. If a customer runs out of ginger ale and calls up the distributor in his area, in many cases, the distributor will not bother to send out the special order. He will usually take the attitude
that the customer should have planned his ordering better. The distributor figures and rightly so, why should he send out a truck and two men to drop two cases on which he will net only ten cents. In this case, the distributor is not worrying about any ill will that might be created or any loss of reputation, because he is actually losing money out of his own pocket. The distributor takes the attitude that he is just building up good will for the Cott Company and he gets very little or nothing out of it. It is true that he might sell this customer a few more cases in the course of a month, but he still does not figure that it pays him for all this running around that he has to do. The Cott Company realizes this, but they are not in a position to do too much about it as long as their distribution set up is in the hands of independent distributors. They do not have control of the distributors and are not able to create any Company policy that would counteract this attitude of the distributor. Cott has lost many retail outlets because the independent storekeeper was at odds with the distributor. The storekeeper feels, in many cases, that the distributor is out for all he can get and does not have any interest in the retailer's problems.

Canada Dry is in the same position as is Cott as far as the chain stores are concerned. One store of a chain store will buy more cases of soft drinks than will ten or fifteen small retail stores in the course of a week. Chain stores are a good credit risk and require less work on the part of the truck crew. The
cases can be dropped in the receiving room and from there they are handled by the chain store personnel in many cases. But, the chain stores require that the beverage company send a salesman down to put the beverage on the shelves, and to see that the shelf is always full. This takes both time and money. In many cases, the independent distributor just cannot afford to spare a salesman to service the chain store. Canada Dry is in a position to have salesmen, who call on nothing but chain store doing this kind of work.

The question may be asked at this point as to why the independent distributor attempts to give better service. This whole question boils down to just one thing: He just cannot afford to compete with Canada Dry on service. There is just not enough markup for him. If the Cott Company ever expects to compete with the National corporations, it will have to give their distributors a better price. As long as the distributor is netting only 5 cents a case, he will not be interested in going around his territory attempting to build up good will for the Cott Company. Cott has a very good product that comes in an attractive package, which, if handled correctly, could give any product on the market terrific competition. Until this point is reached, the Company will not get any more distribution in this area. Every possible retail outlet in the area has been canvassed and the great majority carry Cott or carried it at one time and dropped it for one reason or another. If distribution is to increase, Cott will have to offer better service to the
retailer. The consumer demand is high for Cott. The beverage manufactured by Canada Dry and by Cott are nearly equal, Cott giving 4 ounces more for the same amount of money. This is the only reason that many of the storekeepers will carry the line. The distributors are doing such a poor job, in many cases, that the storekeeper would discontinue the line if it were not for the fact that the consumer demand was so great.

9. Distribution of a New Product

Canada Dry also distributes syrup for fountain use. This syrup is designed to be mixed with soda water right at the fountain. This, unlike the syrup distributed by Cott, which is intended for home consumption, is not to be used for milk mixes, waffle syrup, etc. Cott does not distribute syrup for soda fountain use. Canada Dry distributes its syrup directly from the trucks that carry the regular beverage line. Whenever a salesman gets an order, the store receives it the next time the truck makes a delivery at that store. Cott distributes its syrup directly through wholesale grocers. Canada Dry does not deal with any wholesale grocer in any of its lines.

10. Direct Selling Versus Selling Through Distributors

Many of the advantages of direct selling have already been discussed. At this point, the possibility of direct selling throughout the country will be discussed. Canada Dry feels that it will never attempt to do away with all of its independent distributors. These distributors are doing a good job on the problem that they have before them. Independent
distributors are used only in those areas that cannot support a direct distribution set up. Canada Dry does much National advertising, and it is the policy of the Company to have every little country store serviced by Canada Dry agents, no matter how expensive this might be. The Company will allow the distributor enough of a margin to make such service profitable. Canada Dry is not considering eliminating all distributors in the future. In order to get this National distribution, it is absolutely necessary to have some independent distributors.

11. Requirements To Become A Distributor

Unlike the Cott distribution set up, the Canada Dry distributors are not solely distributors of Canada Dry. In the case of Cott, the majority of Cott distributors handle only Cott products and carry nothing else. Canada Dry is unable to do this because its distributors cover the rural areas in which they have to carry many other lines in order to make the long trips over the country roads pay. Consequently, many of the Canada Dry distributors also distribute beer, groceries, etc. Therefore, the Canada Dry distributors do not have to have the control that is necessary for the Cott distributors. Cott relies on its distributors for all of its distribution, but Canada Dry uses distributors only for the rural areas in which there is not enough business to warrant direct selling. The Canada Dry distributors are not tied as closely to that Company as is the case with the Cott distributors. Canada Dry does not attempt
to exercise control over its distributors as does Cott. If the Cott distributors do not do a good job, Cott is out of business, but if the Canada Dry distributors fall down on the job, the only effect would be that the rural areas would suffer without an alarming decrease in sales.

If a grocer-distributor wishes to take on Canada Dry, he only has to show that he is a good business man and that he is equipped to do the job. The average Canada Dry distributor will not do nearly the amount of volume that the Cott distributor does, therefore, he will not need the equipment that is necessary for the Cott operation. The distributors in Northern Maine are called upon three or four times a year by a representative from the Boston office. The Cott distributors will have someone from the Boston office down at their warehouse at least once a week. This is only natural. If Cott is going to get any kind of distribution, it will have to be constantly chasing its distributors, for if the distributors do not do a good job, Canada Dry will move in.

12. Pricing and Terms of Sale

Unlike the Cott Company, Canada Dry does not attempt to maintain the same price policy with each distributor. This is due to the fact that the Canada Dry distributor is in a different position than the Cott distributor. The Canada Dry distributor is usually at a distance from the bottling plant and is just a secondary means of distribution, while in the case of Cott, the distributor is the primary method of distributing the product.
In most cases, he is relatively near the bottling plant. This means that Cott could not charge each distributor a different price.

Canada Dry, like Cott, quotes a suggested resale price to the retailer but does not attempt to enforce it. All of the Canada Dry advertising has the retail price quoted on it, therefore, making it very difficult for the retailer to sell the product at a higher price. The resale price is kept constant throughout the Country, except in a few very scattered areas, which are out of the way and have a high transportation cost.

13. Discount Policy

This is one field that the Canada Dry Company has it over the Cott Company. Compared to Cott, Canada Dry is the most liberal. Cott demands that the distributors pay cash within seven days. This restricts the credit that the distributor can extend to his retail customers. In order to meet his obligations to Cott, the distributor has to get the same terms from his customers. In most cases, the Cott distributor simply cannot afford to carry his retailers on better terms.

Canada Dry extends credit on a sixty to ninety day basis directly to its retailers. If the retailer is in a good financial position, Canada Dry will give him credit. Cott’s distributors have to compete with this sort of credit allowance. The average storekeeper will, of course, buy from Canada Dry because of the better terms. He does not have to tie up his
money in stock which has to be paid for within a week. He gets
the same markup from Canada Dry and does not have to pay for it
for three months. This is just another advantage that a
powerful Corporation has over the smaller companies. Cott
has made great progress since its inception, but it has reached
a point in this area that it cannot expand unless it can offer
credit terms comparable to that of its competition. Distributors
get special credit extension for special reasons. A distributor
in Northern Maine will get special consideration because of
the distance and the type of accounts that he services. Canada
Dry is very much conscious of trying to maintain its National
distribution, which attempts to cover every little hamlet
in the Country. Canada Dry will make special allowances for
any donations that are made for charitable affairs etc.

11. Market Research and Planning

Unlike the Cott Company, Canada Dry is not attempting
to reach National distribution status. They have already
accomplished this some time ago. Canada Dry's problem
is maintaining its National distribution. The Company has a
policy of having Canada Dry available to every person in the
Country, who is reached by its National advertising. This
is often done at a great expense to the Company. In many cases,
the Company makes little or no profit in such sales. There is
a case down on Cape Cod in which the Company sent a truck
twenty miles out of its way two times a week to drop off one case.
On such a trip the Company lost money but they created good will and
the Canada Dry product was the only soft drink that was available to the people in that summer community. In the more profitable areas, the Company distributes directly, but in the rural areas, the Company distributes through jobbers. It is the job of the jobber to see to it that every little store in his community that is willing to carry Canada Dry has the opportunity. This is assuming that his credit is good. Canada Dry will make it profitable for the jobber to service such stores. If this were not so, as is the case of Cott, the distributor would not bother handling such accounts.

The trading area for Canada Dry is the whole world. Canada Dry has world-wide set up franchise bottling plants, as well as its own bottling plants. These plants distribute directly themselves in most cases and are supplemented by distributors, who are independent operators. In contrasting this with Cott, it is noted that Cott is concentrating only in the larger populated areas and the only foreign Country that is bottling under the Cott name is Canada. Eventually, Cott intends to get world-wide distribution, but at present it is handicapped by financial problems. Many of the Canada Dry bottling plants are Company owned. In some of the smaller cities, they have franchise bottlers. Canada Dry has a Company plant in Boston and Chelmsford, Massachusetts, while they have a franchise bottler in the Worcester area. The powdered syrup is shipped from the main plant in New York to Boston and the Chelmsford plants. The powder is then made into the syrup that goes into
the beverage. Some franchise bottlers receive the syrup in powdered form directly from New York, and some receive the syrup already made up from one of the branch plants. In the case of the Worcester bottler, he receives his syrup in powdered form from New York. He then manufactures the syrup that is used in his plant.

Canada Dry has plants in most of the countries outside the Iron Curtain. Many of these are Company owned bottling plants, receiving their powdered syrup from the United States. The majority of these plants are owned by independent foreign businessmen, acting as franchise bottlers. They employ foreign workers, giving jobs to many of the native people.

Canada Dry employs a separate marketing research agency, which does all of its market research. As large as this Company is, it does not undertake to do its own market research. This agency is constantly trying to find out how the tastes of the soft drink consumers are changing. Whenever Canada Dry is contemplating introducing a new product, such as the new canned soft drink for example, this agency shifts into action. They also attempt to measure the effectiveness of its advertising programs, as well as product research.

15. Sales Programs and Sales Promotion

Because of the relative unimportance of the distributor in the total distribution of the Canada Dry line, the Company does not undertake to do any advertising in cooperation with the distributors. Most of the Canada Dry advertising is done on a
Nation-wide basis. Special advertising contracts are available to distributors and to the large retailers, chain stores, etc., but as far as any distributor conducting his own advertising campaign is concerned, very little of this is done. The effectiveness of its advertising and special salesforce is measured by the market research agency. This agency is employed just to do this job. The Company does not attempt to measure the effectiveness of its National advertising itself. Local advertising is done with the cooperation of the franchise bottlers in special cases.

16. Sales Management and Organization

Nearly all of the salesmen working out of the Boston branch are college graduates. Canada Dry believes that if they hire college-trained men, they will have a competitive advantage over other companies in the industry. The Company has a policy of hiring clean-cut young college graduates and training them for six months before they are given a territory. In this way, the young salesman is ready to cope with the daily situations that arise in the making of his calls on the retail trade. The Company sends its representatives to the local colleges in the Boston area and from these they select those candidates for their sales training program. This program consists of a several-week course in selling at the New York Company headquarters. The young salesman is then introduced to the retail trade that will make up his territory. Canada Dry pays the highest salaries to its salesmen in the industry.
This is keeping within its policy of hiring only the better type of person for selling jobs. Bonus systems are used in the form of prizes as an incentive system.
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