1. Coca-Cola Zero

Coca-Cola Zero, a product that tastes like Coca-Cola Classic but without the calories, was launched in June 2005 in the United States. The product is available nationally in supermarkets, mass merchandisers, drug stores, convenience stores, and variety stores. A marketing strategy is needed to launch the product in Canada.

The Soft Drink Market

The soft drink market is segmented based on calorie count. There are regular soft drinks (high in calories) such as Coca-Cola and Pepsi-Cola, diet soft drinks (low in calories) such as Diet Coke and Diet Pepsi, and soft drinks that fall somewhere in between (mid-calorie), such as Coca-Cola C2 and Pepsi Edge.

Trends in volume indicate that the diet segment has grown at a rate of 8 to 10 percent a year over the past five years, while the regular segment has declined at a rate of 2 to 3 percent a year. Overall, the carbonated soft drink market is flat. The mid-calorie segment was created in 2003 with the launch of Coke C2 and Pepsi Edge, but the jury’s still out on how much of an impact these brands will have on the market.

Per capita consumption in 2004 fell for the sixth straight year after several decades of unabated growth. Per capita consumption trends are included in Figure 1.

Figure 1

Per Capita Consumption Trends: Soft Drinks

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption (gal.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>54.8</td>
</tr>
<tr>
<td>2000</td>
<td>54.5</td>
</tr>
<tr>
<td>2001</td>
<td>54.3</td>
</tr>
<tr>
<td>2002</td>
<td>54.2</td>
</tr>
<tr>
<td>2003</td>
<td>53.8</td>
</tr>
<tr>
<td>2004</td>
<td>53.7</td>
</tr>
</tbody>
</table>

Source: Beverage Marketing Corporation. Consumption is U.S. data.

It seems that most new products that have been introduced in the past three to five years have had a cannibalizing effect on the regular soft drink category. The launch of Coca-Cola Zero segments the market even further. It is not certain if Zero will attract new users, or take users away from regular Coca-Cola or Diet Coke. The objective is to build volume within the Coca-Cola family of soft drinks.
In terms of how soft drinks are sold, the market is segmented based on packaged sales and fountain sales. As of 2003, packaged soft drinks (beverages sold in plastic containers, cans, and bottles) comprised 78 percent of the market and fountain sales accounted for 22 percent of the market. The battle for market share is won or lost in supermarket aisles!

**Soft Drinks Are Popular**

In the average grocery store in North America, the largest-volume section is soft drinks. In many stores they occupy an entire aisle and additional displays are very prominent on a seasonal basis. Here are few bits of information about soft drinks to digest:

- One of every four beverages consumed in North America today is a soft drink
- Globally, carbonated soft drinks are the third most-consumed beverage
- 25 years ago the consumption of milk by teenagers was double that of soft drinks; today the situation is exactly the opposite
- Teens just about hit their daily sugar limits from soft drinks alone

**Other Forms of Competition**

Soft drink brands must be concerned with alternatives in other beverage categories. Over the past five to ten years the fruit juice, bottled water, and energy drink categories have grown considerably. Bottled water rivals beer, coffee, and milk in volume, and as of 2004 it officially became the second most commercial beverage in North America. If current trends continue, with bottled water growing strong and carbonated soft drinks moving slowly, bottled water could overtake soft drinks by the end of the next decade. Fruit juices are another cold beverage alternative that soft drink marketers must contend with, but they rank lower in the beverage pecking order.

Both Coca-Cola and Pepsi-Cola market a selection of brands in the bottled water, fruit juice, and energy drink categories. In fact, Aquafina water, a Pepsi-Cola brand, is the market leader, and Dasani, a Coca-Cola brand, is just behind the leader. Coca-Cola brands in the fruit drink category include Minute Maid, Hi-C, and Fruitopia. Pepsi-Cola’s brands include Tropicana and Fruitworks. Powerade, a Coca-Cola brand, is a distant second to Gatorade, a Pepsi-Cola brand, in the energy drink category.

**Coca-Cola: The Company**

The Coca-Cola Company is the world’s largest beverage company. Along with Coca-Cola, recognized as the world’s best-known brand, the company markets four of the world’s top five soft drink brands, including Diet Coke, Fanta, and Sprite, and a wide range of other beverages including diet and light soft drinks, waters, juices and juice drinks, teas, coffees, and sports drinks. In 2004 The Coca-Cola Company generated US$21.9 billion in net operating revenues and a net income of US$4.8 billion. North America generates 30 percent of company revenues and 24 percent of operating income.
Coca-Cola: The Brand

Coca-Cola is the world leader in the soft drink market. The product was first offered as a fountain beverage by mixing Coca-Cola syrup with carbonated water.

When all company beverages are combined, Coca-Cola owns 44.0 percent of the soft drink market. Archrival Pepsi-Cola owns 32.1 percent of the market. When one thinks of a market leader, one usually thinks of a brand like Coca-Cola! In the cola segment of the market, Coca-Cola Classic is losing a little ground each year but Diet Coke is gaining ground. This trend is a direct reflection of consumer demand for products with fewer calories. New line extensions such as Coke C2 and Diet Coke with Lime have added some volume to the brand.

Coca-Cola brands include Coca-Cola Classic, Diet Coke, Caffeine-Free Diet Coke, Caffeine-Free Coca-Cola Classic, Vanilla Coke, Cherry Coke, Diet Coke with Lemon, Diet Vanilla Coke, Coca-Cola C2, and now Coca-Cola Zero.

On an individual brand basis, Coca-Cola Classic is the brand leader with a market share of 18.6 percent. See Figure 2 for the top 10 brands and their market shares.

Figure 2

Market Share: Top 10 Brands

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>Cases Sold (millions)</th>
<th>Market Share</th>
<th>Share Growth</th>
<th>Share Point Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Coca-Cola Classic</td>
<td>1894.4</td>
<td>18.6</td>
<td>-3.0%</td>
<td>-0.7</td>
</tr>
<tr>
<td>2</td>
<td>Pepsi-Cola</td>
<td>1268.7</td>
<td>12.5</td>
<td>-4.5%</td>
<td>-0.6</td>
</tr>
<tr>
<td>3</td>
<td>Diet Coke</td>
<td>959.4</td>
<td>9.4</td>
<td>+5.0%</td>
<td>+0.4</td>
</tr>
<tr>
<td>4</td>
<td>Mountain Dew</td>
<td>646.1</td>
<td>6.4</td>
<td>-1.5%</td>
<td>-0.1</td>
</tr>
<tr>
<td>5</td>
<td>Sprite</td>
<td>601.4</td>
<td>5.9</td>
<td>-5.0%</td>
<td>-0.3</td>
</tr>
<tr>
<td>6</td>
<td>Dr. Pepper</td>
<td>573.7</td>
<td>5.6</td>
<td>-3.9%</td>
<td>-0.3</td>
</tr>
<tr>
<td>7</td>
<td>Diet Pepsi</td>
<td>560.8</td>
<td>5.5</td>
<td>+6.1%</td>
<td>+0.3</td>
</tr>
<tr>
<td>8</td>
<td>Caffeine-Free Diet Coke</td>
<td>173.7</td>
<td>1.7</td>
<td>+2.0%</td>
<td>0.0</td>
</tr>
<tr>
<td>9</td>
<td>Sierra Mist</td>
<td>140.2</td>
<td>1.4</td>
<td>+89.3%</td>
<td>+0.7</td>
</tr>
<tr>
<td>10</td>
<td>7-Up</td>
<td>126.3</td>
<td>1.2</td>
<td>-27.6%</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: Beverage Market Corporation. All figures are for the U.S. market, 2003.
External Trends

Fads come and go, but few have had such far-reaching effects on the business as the Atkins Diet. “It seems like the whole world is on the Atkins Diet,” observes Francie Patton, vice-president corporate communications for AriZona Beverage Company.

While recent statistics suggest the low-carbohydrate and low-calorie craze is over, it is very likely the carbohydrate and calorie counting will continue long after people (almost inevitably) begin asking, “Atkins who?”—especially since it looks like obesity concerns aren’t likely to abate in the near future.

Obesity is in the news, and there are serious concerns for obesity in young children. “We are becoming a more overweight population, we are less active and we are also getting older. If you put all of these factors together, we are seeing a chronic disease epidemic occurring,” says Dr. Frank Vinicor, Director of the Diabetes Division, Centers for Disease Control and Prevention. It is estimated that 61 percent of North America’s population is overweight, and more than one-quarter are classified as obese or grossly overweight. The percentage of children who are overweight has tripled since 1970, with 13 percent of the 6- to 19-year-old group being overweight.

The calories consumed from soft drinks don’t seem to register in the same way that those from solid candy do. That means consuming soft drinks with your meal instead of water or another calorie-free beverage could really make a difference to a person’s weight and waistline. These concerns are fuelling growth in the diet soft drink market and are the reason why new products like Coca-Cola Zero are being launched.

Coca-Cola Zero

The planned launch date for Coca-Cola Zero in the United States is June 2005. The new zero-calorie cola will compete directly with Pepsi One, a one-calorie cola drink.

“Coca-Cola Zero is exactly what young adults told us they wanted—real Coca-Cola taste, zero calories and a new brand they can call their own,” said Dan Dillon, vice-president, Diet Portfolio, Coca-Cola North America. “Young people today do not want to compromise on flavour or calories and we think Coca-Cola Zero’s taste and personality will appeal to them.”

“Coca-Cola Zero’s personality will be different than any of our other brands, and our marketing will reflect that with some fresh ideas we haven’t tried before,” said Christine Holland, director of marketing.

In an effort to generate buzz for Coca-Cola Zero, a special sample pack was listed on eBay in April. The sample pack contained six unique bottles of Coca-Cola Zero and limited-edition Coca-Cola Zero branded premiums (a T-shirt and cooler). A Kentucky man purchased the sample pack for $2750 on the eBay auction. Coca-Cola matched the auction price and donated the money to charity.
Coca-Cola Zero will be sweetened with a blend of aspartame and acesulfame potassium and will be available in a broad range of package sizes. The U.S. launch will include a multimedia advertising campaign.

The company believes the launch of Coca-Cola Zero will not have any direct impact on Diet Coke, North America’s leading diet soft drink, as the target audiences are different. Coca-Cola Zero will be targeting males and females 18 to 30 years old.

The Key Competitor: Pepsi One

“Consumers today are looking for great-tasting foods and beverages while also trying to limit their calorie intake, and that’s exactly what Pepsi One offers,” says Katie Lacey, a PepsiCo vice-president. Pepsi One was an innovator as its introduction in 1998 by far preceded the low-calorie and low-carbohydrate craze that started in 2003.

Pepsi One was originally launched as an alternative to Diet Pepsi, and targeted men in their 20s. The original ad campaign featured famous actor Cuba Gooding Jr. and the slogan “Just one calorie.” It was originally sweetened with acesulfame potassium, an ingredient now used in Coca-Cola Zero. After several years of declining sales, Pepsi One was revitalized in 2005. A new formula was introduced using the artificial sweetener Splenda, which provides a better-tasting alternative according to marketing research studies.

The pitch for Pepsi One is fairly simple—full flavoured Pepsi-Cola and one calorie are living in complete harmony inside Pepsi One—the drink that unites the taste of regular cola with all the things a person likes about diet cola. Togetherness is better than apartness. Oneify!

An outdoor, print, and radio advertising campaign, one of the largest non-television campaigns in Pepsi’s history, supported the relaunch of Pepsi One with the theme “Oneify.”

PepsiCo is a diverse food and beverage company that embraces all Pepsi-Cola, Frito, Lay, and Quaker branded products. Total company revenue is in the US$29-billion range, with an operating income in the US$5.4-billion range.

The various brands in the beverage division include Pepsi-Cola, Diet Pepsi, Pepsi Edge, Wild Cherry Pepsi, Pepsi Twist, Pepsi Vanilla, Mountain Dew, Diet Mountain Dew, Mountain Dew Code Red, Mountain Dew LiveWire, Sierra Mist, and Sierra Mist Free. Other popular beverages include Dole single-serving juices and Tropicana juice drinks.

Present Situation and Challenge

The diet segment of the market is getting very crowded with new products but Coca-Cola has every intention of making Coca-Cola Zero a success. An innovative marketing strategy is needed to clearly differentiate Coca-Cola Zero from other diet soft drinks. At the same time the strategy must work in such a way that sales of Zero do not cut into sales of Diet Coke. Potential consumers must understand the difference between the various brands and what benefits they offer (calories and taste). Coca-Cola Zero must find a niche among soft drink consumers if Coca-Cola is to add more volume to the overall business.
Your challenge is to devise a launch marketing strategy for the Canadian market. The immediate objective is to build awareness and interest for the brand and encourage trial purchases by the primary target market. As mentioned earlier the primary target is males and females 18 to 30 years old. For the purposes of this case assume the brand will be launched in June 2006.

When devising your strategy consider all elements of the marketing mix. Make critical decisions for each component (product and packaging, price, distribution, and marketing communications). Prior to developing your strategy you must conduct some secondary research on the beverage market to update any case facts where necessary.

**Discussion Questions**

1. Identify relevant external trends and influences that will have an impact on the potential sales of Coca-Cola Zero in Canada.

2. Are there too many products and brands in the diet soft drink category and does this situation cause confusion in the consumer’s mind?

3. How can Coca-Cola Zero be clearly differentiated from other diet soft drinks? What are the unique selling points for the brand?

4. Will it be difficult for Coca-Cola Zero to secure shelf space in supermarkets and other retail outlets? What options should the company consider to obtain shelf space?

5. Should there be a test market before launching the product nationally in Canada?

6. Identify all key decisions that must be made for product, price, distribution, and marketing communications in order to make the launch strategy a success.