Can Soft Drink Companies Keep the Pop in Operations?

Description

In the not-so-distant past, people drank soda like it was water. Not so much today with the health concerns regarding obesity and the high consumption of sugar. Beverage companies are facing issues in an industry that must change with the changing tastes of consumers. Here are some of the challenges beverage producers are facing and what they're doing to survive.

Consumers' health concerns

Many studies have linked health problems like diabetes and obesity with soft drink consumption, and consumers are taking action — switching to drinks believed to be healthier (fruit and vegetable juices, yogurt drinks, mineral waters, etc.).

This is good news for companies such as Quebec-based **Lassonde Industries** (TSX: LAS.A). Lassonde produces and distributes fruit and vegetable juices and drinks. It is the second largest producer of store brand ready-to-drink fruit juices and drinks in the U.S. The company's sales were $1.04 billion in 2013, an increase of $18.0 million (1.8%) from $1.02 billion in 2012.

Falling North American sales

In North America, consumers are really taking the health warnings to heart. Consider **Cott** (TSX: BCB). In its 2013 Q4, total filled beverage case volume, excluding concentrate sales, was 180 million cases versus 199 million cases in Q4 2012. The main reason for this volume decline was the general market decline in the North American carbonated soft drink category. Its Q4 2013 revenue was lower by 7% (coming in at $482 million), chiefly because of lower global volumes.

Decline in brand loyalty

Deloitte, in its 2014 Outlook on Consumer Products, noted that eroding brand loyalty is one of the biggest challenges facing consumer products companies this year. Mr. Pat Conroy, Deloitte's vice chairman and U.S. Consumer Products leader, said "For the third year in a row, brand loyalty in the food, beverage and household goods product categories has declined, according to the 2013American Pantry Study."

Coca-Cola (NYSE: KO) still counts on brand loyalty for Coke. Is it listening to prevailing winds in its industry? Apparently not. Mr. Muhtar Kent, CEO, said in February, "Coca-Cola remains magical. We need to work even harder to enhance the romance of the brand in every corner of the world." He may prove industry watchers wrong. Then again, trends concerning changing tastes indicate he may not.

World Health Organization proposed guidance

The World Health Organization is studying reducing the recommended daily intake of free sugars from 10% of total caloric intake to 5%. This will put pressure on beverage manufacturers to rethink soft drink recipes and/or come up with new products. Free sugars are any sugars added to foods by the producer.

A host of alternative products

Considerable competition exists with companies such as **Monster Beverage** (NASDAQ: MNST) developing innovative drinks. Monster Beverage's "Monster Energy Ultra Red" has become one of the brand's top sellers. This product debuted in September 2013. Its Muscle Monster protein shakes are second in the ready-to-drink protein segment: convenience and gas channels.

Of note to investors: Bevmark LLC industry consultant, Mr. Tom Pirko, said recently, "Sugar water with bubbles is not the future of the world." Bevmark specializes solely in food and beverage industries. Mr. Pirko sees the tough future ahead for traditional soft drinks.

Foolish bottom line

The above issues are not going to go away. The focus for these companies must be on developing brands that tap into the predominant consumer mindset. Soft drink manufacturers can experience soft landings in a changing marketplace with unique and healthier products that consumers desire.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:MNST (Monster Beverage Corporation)
2. NYSE:KO (The Coca-Cola Company)
3. TSX:PRMW (Primo Water)

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