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Tide

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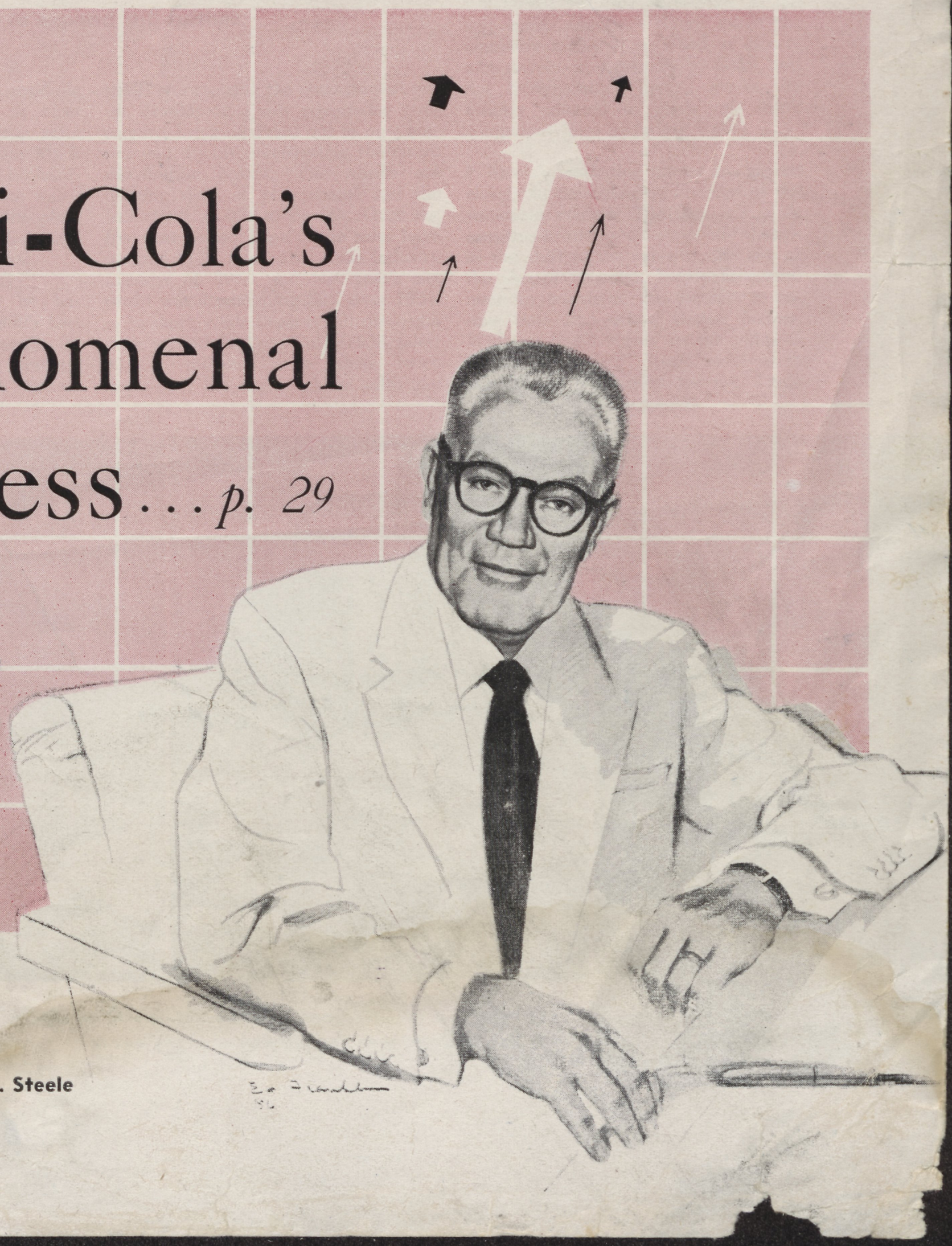
Pepsi-Cola's Phenomenal Success... *p. 29*



Pepsi-Cola's Alfred N. Steele

APRIL 21, 1956 • VOL. 30, NO. 8 **Tide**

A 52% increase in net profits reflects . . .

Pepsi-Cola's new marketing strategy

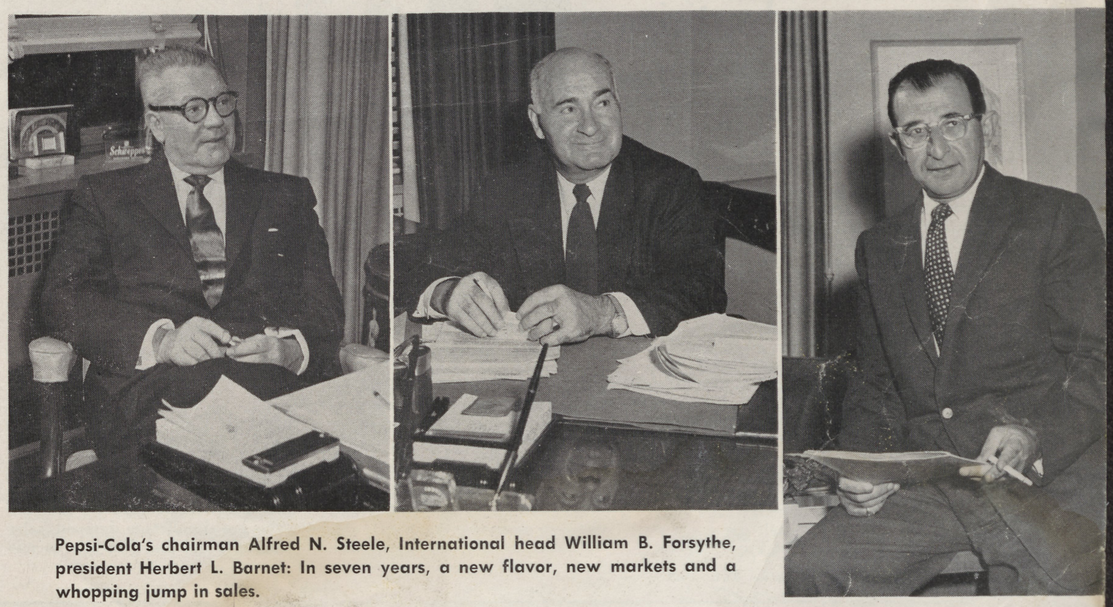
- **Seven years ago Al Steele joined Pepsi-Cola Co.**
- **Since then it has cut Coca-Cola's lead way down.**
- **Here are the marketing moves that did the job.**
- **And how Pepsi hopes to expand still further.**

WHEN Alfred Steele left Coca-Cola in 1949 to join Pepsi-Cola as vice-president in charge of domestic sales and operations, president Walter Mack predicted that "if he hits, he'll hit hard; if he misses, he'll miss the same way." Now, seven years later, it's quite plain that Steele (now Pepsi board chairman) hit the ball right out of the park.

➤ **How in five short years he has turned a $100,000 loss (in 1950's first quarter) into a $9,500,000 profit (in 1955) is a saga of marketing strategy.** Steele began by changing the product itself, reorganizing the management set-up, developing a new advertising philosophy, bringing Pepsi out in new bottles and, finally, overhauling the entire distribution policy. The results are nothing short of phenomenal and the full effect is still to be felt. Over the five-year period Pepsi's case sales have jumped 113% (compared to an industry average of 29%) and last year's net profit was a whopping 52% over 1954.

In short, while Pepsi is still running a poor second to Coca-Cola (1955 sales: $144.7 million, more than twice Pepsi's), it has narrowed the sales gap from about five to one six years ago to about two to one today. This is a remarkable achievement in the face of Coke's legendary saturation distribution and it means that Pepsi-Cola is now considered the real bellwether in the soft-drink industry. Every move the company makes is watched as closely as a paycheck, especially by Coke, and not infrequently's Pepsi's moves are quickly adapted to other soft drink companies (also including Coke).

➤ **Steele's marketing moves are geared closely to the changing concept of the American market. The firm is acutely sensitive to such socio-economic change as the shift to the suburbs, the rise of the shopping center, family entertainment by television, the increase in leisure time and other, similar factors.** With his finger firmly on the pulse of the "new market," Steele indulges in this bit of philosophy for the whole



Pepsi-Cola's chairman Alfred N. Steele, International head William B. Forsythe, president Herbert L. Barnet: In seven years, a new flavor, new markets and a whopping jump in sales.

industry: "We fill no basic need of man. Our products don't clean teeth, shine shoes or add hormones. We sell a simple and happy custom to mass, living America and mass, living America will not stand still while we muddle. It is restlessly and energetically on the move and the speed with which it adopts the happy custom of relaxing with a soft drink depends directly on the vigor with which we promote that custom."

Pepsi's promotional vigor began when Steele took over and hasn't relaxed since. Before joining Pepsi, Steele was first vice-president of Coca-Cola Co., before that vice-president in charge of the New York office of D'Arcy Advertising (then Coke's agency), and before that advertising director of Standard Oil of Indiana for seven years, where he built a solid reputation as a capable executive whose special talent was merchandising.

When he moved into Pepsi, Steele quickly put that talent to work. There was considerable bottler discontent at the time, especially over the deal to get him, which involved an $85,000 salary and an option of 16,000 shares of Pepsi stock and also over Pepsi's bottle sizes and even its taste. Steele immediately revised the corporate setup to give more attention to the bottlers. As Steele says today: "If we have accomplished anything, it's in the changed concept of the bottler. . . . They discipline the business. They keep it strong. As they go, so go we all. In all of America the soft-drink industry is well-nigh unique in this respect: control of sales does not rest with the national manufacturer, but is made instead through another group—an independent group—called bottlers."

Eight regional offices were set up to decentralize command (only last year, the eight regions were grouped into four divisional authorities, each headed by a company vice-president). It became easier for top company men to concentrate on over-all policy with field men looking after sales.

➤ How successful Pepsi's arrangement has been was pointed up this January. Coca-Cola created a bottlers' sales division under vice-president Curtis H. Gager very similar to Pepsi's. Parent bottlers were made regional managers and assumed responsibility for sales development in their areas. Production and fiscal matters, formally under their control, were transferred to the fiscal division of the company. This will give them full time to develop sales, apparently to meet the growing competition from Pepsi.

➤ Steele also called in an eminent bio-chemist and the product was changed (apparently to as much like Coke as bio-chemistry could make it). Then Steele dropped Pepsi's paper label, which had a habit of soaking off, and applied a lighter, cleaner lithograph right on the bottle.

This solved the bottlers' chief complaints of the label and product, but it didn't answer concessionaires' complaints that the 12-oz. Pepsi bottle left customers with no appetite for peanuts and candy bars. With this simple problem began the revolution in soft-drink bottling that is still going on.

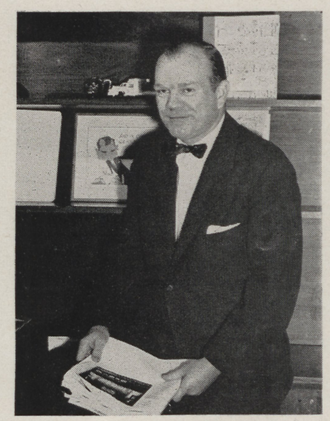
➤ Pepsi divided up its market and cannily decided to fit bottle sizes to individual markets. It kept the 12-oz. bottle for the home market, brought out an 8-oz. bottle for concession sales in ball parks and the like, and introduced a 10-oz. size in southern markets to challenge Coke's position.

Sales clearly showed that such a division was right. Once-a-week shopping in the burgeoning suburbs and a survey which showed that at least two-thirds of all soft drinks are consumed at home convinced Steele & Co. they should promote the 12-oz. bottle—and its quality—heavily. It has been this size and its impact on take-home sales that have put the pressure on Coke. In February, 1955, Coke was moved to bring out a 26-oz. bottle—and for good measure also a 10-oz.—in an effort to capture more of this market. It was Coke's first retreat from the 6-oz. bottle in more than 40 years.

Pepsi also came out with a 26-oz. bottle "early last summer," but it was not Pepsi's first venture in the quart-bottle (26-oz. to 32-oz.) size. In fact, Pepsi takes credit for pioneering the quart size in the '40's (some bottlers in Baltimore and other southern areas still push the 32-oz.). But it appears the field may now concentrate on the 26-oz. Pepsi officials say their 26-oz. is now leading in 76 markets, should be in 100 by the time of heavy summer consumption.

Pepsi welcomes Coke's entry into the large-size field because, as Pepsi President Herbert Barnet puts it: "More attention is focused on both our products. More people are cola conscious than ever before." Obviously, Barnet thinks the total cola market can be expanded still further (per capita consumption is up from 37 bottles of soft drinks a year in the mid-1930's to nearly 190 bottles today).

➤ Just as important (if not more) as the take-home market is the on-premise market. The vending machine industry has, of course, revolutionized soft-drink consumption habits. Coke has a huge lead on Pepsi in this area, largely because Pepsi just about ignored vending



Vice-president D. Mitchell Cox

machines before the advent of Steele just as Coke's bright red coolers were becoming a national institution. Coke, however, neglected the then-new cup vending machines and it was in this area that Pepsi saw its opportunity.

It naturally prefers to have Pepsi exclusively in cup machines but it doesn't hesitate to go in with multiple flavor deals where it has to. The result is that Pepsi is now in second place (to Coke) in machine-sold brands, up from fifth place only a few years ago.

Even so, Barnet estimates that only 5% of Pepsi's volume is in vending machines compared to Coke's 35%. Consequently, Pepsi is making a determined effort to get an even bigger share of this market. "Every new office building, hospital, factory and school house is a potential market," says Barnet. "We want a machine in every one of them." The company hopes that it will do the job with a machine new to the vending industry. It is a pre-mix machine that is filled with Pepsi mixed at plants and delivered to machines in 10-gal. stainless steel barrels (instead of mixing syrup and carbonated water in the machine itself). "It will be," says Pepsi, "like having a drink poured from a 10-gal. bottle of Pepsi-Cola." More important, it will mean no fuss with bottles, uniform quality and easier selling in such places as industrial plants and hospitals.

➤ Similarly, Pepsi is paying considerable attention to fountain sales, another area it pretty much neglected before Steele. As a result of a planned program for lining up new outlets, Pepsi had a 180 %increase in syrup sales during the past five years. One force behind this dramatic increase is fountain sales vice-president Donald Kendall's "Fountain Sales Crew," which is

Pepsi-Cola's advertising strategy

Pepsi - Cola's advertising has clearly been among the most successful in marketing. Thanks to board chairman Steele and, until recently, his alter advertising ego, John Toigo of Biow Co., Pepsi's ads took on a fresh modern look that caught today's youthful spirit and capitalized on it. The biggest news on the Pepsi ad front recently is, of course, Pepsi's switch from Biow (and Toigo) to Kenyon & Eckhardt.

As Steele tells the story behind the switch, he noticed one day last summer the striking similarity between the "light, modern look" of Pepsi's ads and Philip Morris' "gentleness" campaign (see cuts).

Pepsi officials felt the similarity was "too much of a coincidence," particularly since Philip Morris was also a Biow account, with John Toigo working on it. They were also dismayed to learn that staff men who normally worked on Pepsi's campaigns had been assigned to the Philip Morris group. The situation gradually disintegrated, resulting in the breakup of the 20-year association of Steele and Toigo.

They first met at Standard Oil of Indiana, then when Steele went to Coca-Cola, Toigo moved to the D'Arcy agency to work on the soft drink account. After Steele switched to Pepsi-Cola, so did Toigo—working on Pepsi at Biow.

Steele thinks Toigo, who is now Schlitz's marketing director, is able to "articulate concepts" better than anyone else he knows. The two men are responsible for ending the carnival-like aspects of Pepsi promotion, turning it sophisticated.

Meantime, Pepsi-Cola, which is probably a $7,000,000-a-year account, has been putting half of its ad money into local media—spot radio and television, newspaper and outdoor (the other half goes for national magazines and Sunday supplements). Much of the local money goes to division managers, who in turn allocate it to bottlers in ratio to their purchases of concentrate from the company. One reason Kenyon & Eckhardt got the Pepsi account is its large staff of agency field men who can advise bottlers on spending the cooperative budget. (Some industry officials estimate Pepsi bottlers also spend upward of $7,000,000 of their own money on ads.)

You can expect Pepsi's "light" theme to continue. In fact, the company has just renewed Polly Bergen's contract (she gives radio & TV commercials) for another year. Miss Bergen embodies the Pepsi idea: slim, trim, calorie-conscious. She's the latest refinement in a long line of promotions that include the famous "twice as much for a nickel, too" jingle, Peps: & Pete—the Pepsi-Cola cops, Faye Emerson ("as her decolletage dropped, sales soared") and Phil Regan, who was

Similar Pepsi-Cola and Philip Morris ads: was the "light refreshment" handed too much "gentleness?"

Pepsi's answer to Coke's Morton Downey.

Says ad vice-president Charles Derrick: "It takes awhile to develop a personality for a product but Miss Bergen is doing fine. We block out her year in advance to give her adequate time for nightclub engagements. She plays hostess at county fairs and even azalea festivals, and has been well accepted."

Miss Bergen's identification as the Pepsi-Cola girl is but one way ex-Canadian Derrick "merchandises the advertising." Another: since he feels "the advertising department should be a service department for the bottlers" he has spent five years refining a book showing Pepsi's ads for the year plus mats for sale, which goes to all bottlers.

Domestic sales vice-president Richard H. Burgess, International executive Henry M. Winter

an aggressive group of young sales trainees who tour the U.S. in constant search for new outlets. They, in turn, are followed up by bottlers' representatives who capitalize on the groundwork laid by the crew."

While a dynamic economy almost guarantees expanding markets in the domestic field, the foreign market is also getting increased attention from Pepsi. As one official says: "We're out to make Mexicans forget they ever heard of tequila." With 29 bottling plants in operation south of the border, they may just do that.

➤ **Pepsi has been doing an overseas business since 1937, but not until 1954 was Pepsi-Cola International set up as wholly owned subsidiary. Today there are 242 Pepsi-Cola bottling plants serving 71 countries and 230 million people outside the United States.** Three plants have been opened so far in 1956, and the company expects to have 18 in operation before the year is out. In 1950, when Steele became president, 166 were operating. The 260 in operation by the end of the year will mark a 44% gain since 1950.

Heading up Pepsi International is William B. Forsythe, who has been with the company since 1939, when he was named general manager for England, Europe and British possessions. Chief executive officer is Henry M. Winter, who spends much of his time logging air miles visiting Pepsi's 13 international regions.

Pepsi-Cola International gives overseas bottlers the same kind of close support U.S. bottlers receive from the parent company. And how it aids the local economies is pointed up in a simple statistic: right after World War II almost 100% of bottling materials were purchased in the states; now almost 95% are purchased in the local regions.

➤ **Allied to this international operation is the arrangement made with "the man from Schweppes" to sell Schweppes' quinine water, club soda and ginger ale in the U.S., in return for Schweppes' distribution of Pepsi in England.** Many in the soft-drink industry think Pepsi brought Schweppes to the U.S. from England, where it's a prestige product—to help upgrade Pepsi over here. It would get into the best kind of tavern and restaurant outlets. The quinine water was introduced in New York in 1953, the soda and ginger ale roughly a year later. Now 18 bottlers are producing Schweppes and shipping to distributors located in 167 markets, reaching some 300,000 retailers.

What lies ahead for Pepsi? In 1952, Pepsi case sales were about 130 million a year. In 1955, industry spokesmen estimated sales at 200 million. Steele & Co. are out to double that figure.

Vice-presidents Donald M. Kendall of syrup sales, J. Charles Derrick of advertising