DOUBLE COLA: THE STORY OF THE UNDERDOG IN THE SOFT DRINK INDUSTRY

Joyce M. Wolburg
University of Tennessee

ABSTRACT

Double Cola represents the underdog trying to beat the odds in an oligopoly market. Coke and Pepsi dominate the soft drink industry with a combined market share of 83.8% for cola drinks leaving Royal Crown Co. with 2.8% and fourth ranked Double Cola with 0.7% of the market. With a colorful history including an eccentric founder and lost opportunities for surpassing the major players, Double Cola is virtually unknown in many American cities. However, the company has has developed a winning strategy in the less glamorous markets of rural America and the Third World.

INTRODUCTION

Americans spent $47.2 billion on soft drinks in 1991, a figure that people not familiar with the soft drink industry probably find surprisingly large. Understanding the vast use of the soft drink industry of today will help place in context the history of one small company--Double Cola of Chattanooga, Tennessee. It is a company that caters to the tastes of rural people, both here in the United States and in more than 30 countries from Bolivia to India.

Traditionally the participants in the industry have been: (1) the concentrate and syrup producers, (2) the bottlers, and (3) the retail outlets which include four channels--food stores, fountain, vending, and convenience stores/others. More than 50 companies produce concentrate in the U.S., and while some concentrate companies own selected bottling operations, most bottling companies are separately owned franchises (Irwin 1986).

In the U.S. soft drinks are the favorite beverage by volume, with a 51.2% share of the total beverage market. In 1991, Americans drank 12.2 billion gallons--a figure that translates to 48.4 gallons or 768 8-ounce drinks per person (Sfiligoj 1992).

1991 figures provided by John C. Maxwell, Jr., Beverage Industry director of research/statistics, show the market share for Coca-Cola Co. at 40.7%, Pepsico 31.3%, Royal Crown Co. 2.5%, followed by privately held Double Cola Co. at 0.5% (Levandoski 1992). These figures reflect total sales of all company products including non-cola beverages. Double Cola's 0.5% of the $47.2 billion market is $236 million, and its overall position in the soft drink industry is tenth place following Coke, Pepsi, 7UP, Dr Pepper, Cadbury-Schweppes and others. When looking selectively at cola products, Coke leads the market with a share of 47.7%, followed by Pepsi's 36.1%, Royal Crown's 2.8%, and Double Cola's 0.7%. In this oligopolistic market, Pepsi and Coke control 83.8% of cola sales leaving third and fourth place Royal Crown and Double Cola 3.5% of the market combined. Other companies fight over the remaining 12% share.

With such a huge industry it is of interest to know how the industry evolved, how the major players became so powerful, and how the small player competes against industry giants. A look at the Double Cola's fight to stay in the market shows the strategy of the underdog in American business.

EARLY HISTORY

The soft drink industry began in the late 1800s. John S. Pemberton, Atlanta pharmacist, developed Coca-Cola in 1886 as a soda fountain drink and sold it as "a brain tonic and intellectual beverage" (Govan and

Livingood 1977). In 1891, he sold the formula to Asa Candler. Candler envisioned Coca-Cola primarily as a fountain beverage and not a bottled drink. When two businessmen from Chattanooga, approached Candler for the bottling rights, Candler recounted the meeting as follows:

> ...two gentlemen came into our office on Edgewood Ave. for the purpose of negotiating with me about...the plausibility and the right to bottle Coca-Cola. I said: "Gentlemen, I don't think we want to have it bottled; we cannot handle it ourselves; there is too much detail about the bottling business and we are about as busy as we can be advertising the simple word 'Coca-Cola'...and I don't think you can make anything out of it...We have neither the money, nor the time, to embark in the bottling business, and there are too many folks who are not responsible who care nothing about the reputation of what they put up, and I am afraid the name will be injured..." (p. 387).

Despite Candler's reluctance he granted the exclusive right to bottle Coca-Cola to Ben Thomas and Joseph Whitehead on July 21, 1899 for $1--a sum he never bothered to collect--believing that the drink's future rested with fountain sales (Irwin 1987).

Coca-Cola experienced success early on, and many competitors followed. In 1916, the development of the distinctive 6-1/2 ounce, green "hobble skirt" bottle identified Coca-Cola from the other brands whether the bottle was "full, empty, or broken" (p. 388). The drink legally earned the nickname "Coke" in 1920 when U.S. Supreme Court Justice Oliver Wendell Holmes ruled that "Coke" could mean only Coca-Cola. Under the direction of Robert W. Woodruff, who became the company's CEO in 1923, Coke became the industry leader through a series of innovations including the open-top cooler for bottled Coke in 1929 and the first successful coin vending machine in 1937. Woodruff also began developing Coke's international business, and at the request of Gen. Dwight D. Eisenhower at the beginning of World War II promised "that every man in uniform gets a bottle of Coca-Cola for 5 cents wherever he is and whatever it costs" (Irwin 1987a). Coke maintained the 6-1/2 ounce bottle until 1955 when declining sales forced an increase to 12 ounce bottles (Irwin 1987a).

Other soft drink companies grew during the late 1800s. Pepsi-Cola (originally called Brad's Drink) was invented in 1893 by Caleb Bradham, a pharmacist. It followed a pattern similar to Coke's of expansion through franchised bottlers. However, the company verged on bankruptcy several times and did not experience such significant growth as Coke. Pepsi came in a 12 ounce bottle, which its bottlers sold at a retail price of 10 cents, while Coca-Cola charged 5 cents for its 6 1/2 ounce drink. In 1933 Pepsi lowered the price to 5 cents and in 1939 launched its radio jingle, "Twice as much for a nickel, too. Pepsi-Cola is the drink for you." In 1940, the radio industry rated the jingle as the second-best-known song in America after the "Star Spangled Banner" (Christensen 1977, p. 7).

Dr. Pepper was formulated by a fountain clerk, in Waco, Texas, in 1885. It was also distributed through a network of franchised bottlers and first became popular in the southwestern U.S. Seven-Up appeared in 1929, quickly establishing itself both as a popular drink and as a mixer (Irwin 1987a).

According to James Livingood, former county historian, in the late 1800s Chattanooga was a town in search of an industry. Its inability to produce the quality steel of nearby Birmingham, Alabama prevented its entry into the steel industry (Livingood 1992). Instead Chattanooga claimed the origins of Coca-Cola bottling, the location of Tennessee's only glass works at the time, and was the home of the Cherco-Cola Company which later became the Nehi Bottling Company.

Charles Little, a former Cherco-Cola official organized the Good Grape Company in 1922 and purchased the Seminole Flavor Company in 1927 (Wilson 1980). Little began developing a cola drink--mainly through trial and error--which he perfected in 1933 and named Double Cola. It was called Double Cola because it came in a 12-ounce bottle and sold for 5 cents when Coke was packaged in a 6 1/2 ounce bottle for 5 cents--twice as much as Coke for the same price. Using the theme "Double Good, Double Cola," sales grew rapidly in the 1930s (Sooder 1991). The fact that Little was a stock

holder in the Coca-Cola Co. at the time he introduced Double Cola raises the question of whether Little envisioned Double Cola as a competitor to Coke (Martin 1989). Little's concept of the product can only be speculated on, but Karl Sooder, Double Cola Company Vice-President of Marketing, suspects that Little intended Double Cola for a different market than Coke and never saw a conflict of interest. Usman Mirza, former marketing manager for Coca-Cola believes that Little's ownership of Coke stock did influence his business strategy, which relied minimally on advertising because Little did not want to compete against Coke. L. Edward Shanks, Double Cola President, doubts that Little's ownership interest influenced Double Cola's success or aggressiveness and believes that Little felt the product could compete with Coke. Shanks said:

> There was a time when Double Cola competed very well with Coca-Cola, and I think that he believed that it had an ability to do so. But I don't think that he was willing to risk resources beyond a certain point. It wasn't that he was risk adverse. It's just that I don't think he had the long term vision that Woodruff had--who was a real visionary.

John Kirby, Vice-President of sales for Double Cola, worked with Little and recalls that he was very eccentric. Little's distaste for paying taxes discouraged him from making too much money. Kirby remembers Little telling him, "Why don't you just back off--for every dollar you're making I'm paying 89 cents of it to the government." Kirby believes Double Cola did have a chance to become a big player but Little didn't feel the need to grow and didn't want to jeopardize what he had (1992).

Perhaps a more relevant issue than Double Cola's competition with Coke is Double Cola's competition with Pepsi in the 1930s. Both products used the same strategy of offering twice the volume as Coke for the same price. Consumers choosing the product on the basis of price would then have to differentiate between Pepsi and Double Cola.

Although by 1992 estimates Pepsi is far ahead of Double Cola in market share, the early years tell a different story. Pepsi gained considerable market share in the '30s but lost much of it during the '40s. In the years following World War II, Coke outsold Pepsi by 10 to 1 and held 70% of the cola segment of the market (Irwin 1987). The '50s brought new management to Pepsi transforming a nearly bankrupt company into one experiencing a 300% increase in revenue. Shanks notes that prior to World War II, Double Cola was as large a company as Pepsi, but through a series of events in the '40s and '50s, Pepsi emerged as the chief rival to Coke instead of Double Cola. According to Shanks:

> ...Pepsi started off in a position that was worse than our own. In fact Pepsi-Cola went into bankruptcy on several occasions...and I was told that he [Little] had an opportunity to buy Pepsi-Cola and turned that down because he said it will never amount to anything (1992).

With the benefit of hindsight, Shanks believes that even if Little had been right about Pepsi's chance of success, buying the company would have buried a huge future competitor. Kirby spoke of Little and said:

> He had a chance to have bought enough stock in the Pepsi-Cola Co. to have controlled it for about a quarter of a million dollars...but he told me, "I've got a good cola. I don't need that. And that's the way he felt. I asked, "Could you have done it without jeopardizing the backing you needed to continue to grow the brand as it was," and he told me, "in 1946 I was ahead of everyone else."

Among the events of the '40s and '50s that affected the soft drink industry was Little's handling of sugar shortages during WWII. Due to sugar rationing, no one in the soft drink industry could produce sufficient quantities to meet the demand. While many companies downsized their products, Double Cola continued to sell 12 oz. bottles until the war was almost over. This strategy put Double Cola at a disadvantage because "other brands could expand their distribution or meet consumer demand in a time frame that outstripped Double Cola's ability to keep up with it" (Shanks 1992).

Another lost opportunity for Double Cola was Little's failure to capture the vending machine market--one which Bruce Oman, President of the Marketing Services Group, currently places at 16% (1991). Before vending machines were available, drinks were peddled from wagons or sold in ice chests. According to Shanks, Little wanted to expand into the dispensing of cold soft drinks and envisioned the forerunner of vending machines.

> He made a substantial investment in an apparatus that had a cabinet and dispensing mechanism, but it failed to work properly...Little had the right idea--he was ahead of his time, but he executed poorly and abandoned the idea...He allowed someone else, a competitor, to come along and...develop a market segment that we could have been ahead in, rather than playing catch up (1992).

Kirby also recalls Little's efforts at producing a successful vending machine. Little contacted an Atlanta firm known for making coffins to make a cabinet for his vending machine. Then he went to Westinghouse for a good refrigeration unit. But when he tried to put a vending mechanism in it, he found that it only worked under laboratory conditions. It failed to work in the humidity of the North Carolina textile mills, where Double Cola had been selling in push carts.

> He spent a quarter of $ one million in vendors and finally junked the whole idea. From then on if you'd go to him with a vending program, he was against it. There was just no way--he'd dismiss you real quick. He didn't care because by that time he didn't want to jeopardize what he'd been able to accumulate on any ventures...He knew where he stood. He was comfortable. He had more money than he or his family really needed...(1992).

COMPETITION IN TODAY'S MARKET

The question arises as to how a small player holding less than 1% market share is able to compete in today's oligopoly market in which two companies hold a 72% market share of the soft drink industry. Domestically, the primary soft drink distribution channels have been fountain, vending, grocery stores, and other retail outlets such as convenience stores as shown in Figure 1 (Irwin 1987).

Fountain Sales

Within these channels the small player is up against fierce odds. Coke's share of fountain sales through 1990 stood at 59% with more than twice as many fountain channels as Pepsi. In 1990, Pepsi lost three of its highest-profile corporate accounts to Coke--Wendy's, Burger King and Hardee's (Prince 1992). While Pepsi's ownership of Kentucky Fried Chicken, Taco Bell, and Pizza Hut ensures the fountain business for those restaurants, at the same time it gives Coke leverage with other potential corporate clients. Coke warns, "Every time you sell a Pepsi soft drink, you're funding PepsiCo's restaurant expansion. And pouring money into your competitor's pockets" (p. 5). Without the ownership of restaurants or large corporate accounts, the small player is shut out of the fountain business.

Grocery Stores

Grocery stores are another battleground for the small player like Double Cola. Cooperative Merchandising Agreements (CMAs) allow a foodstore to advertise a particular brand a certain number of weeks per year in return for promotional allowances. Attorney Lawrence R. Levin says that "in some areas, smaller, less affluent bottlers have been squeezed out by one or two brands that have taken all 52 weeks of the available promotional activity in a supermarket. To bottlers like these, CMAs are Catastrophic Methods of Aggression." While CMAs smack of monopolies, they have been upheld as lawful and valid, part of normal

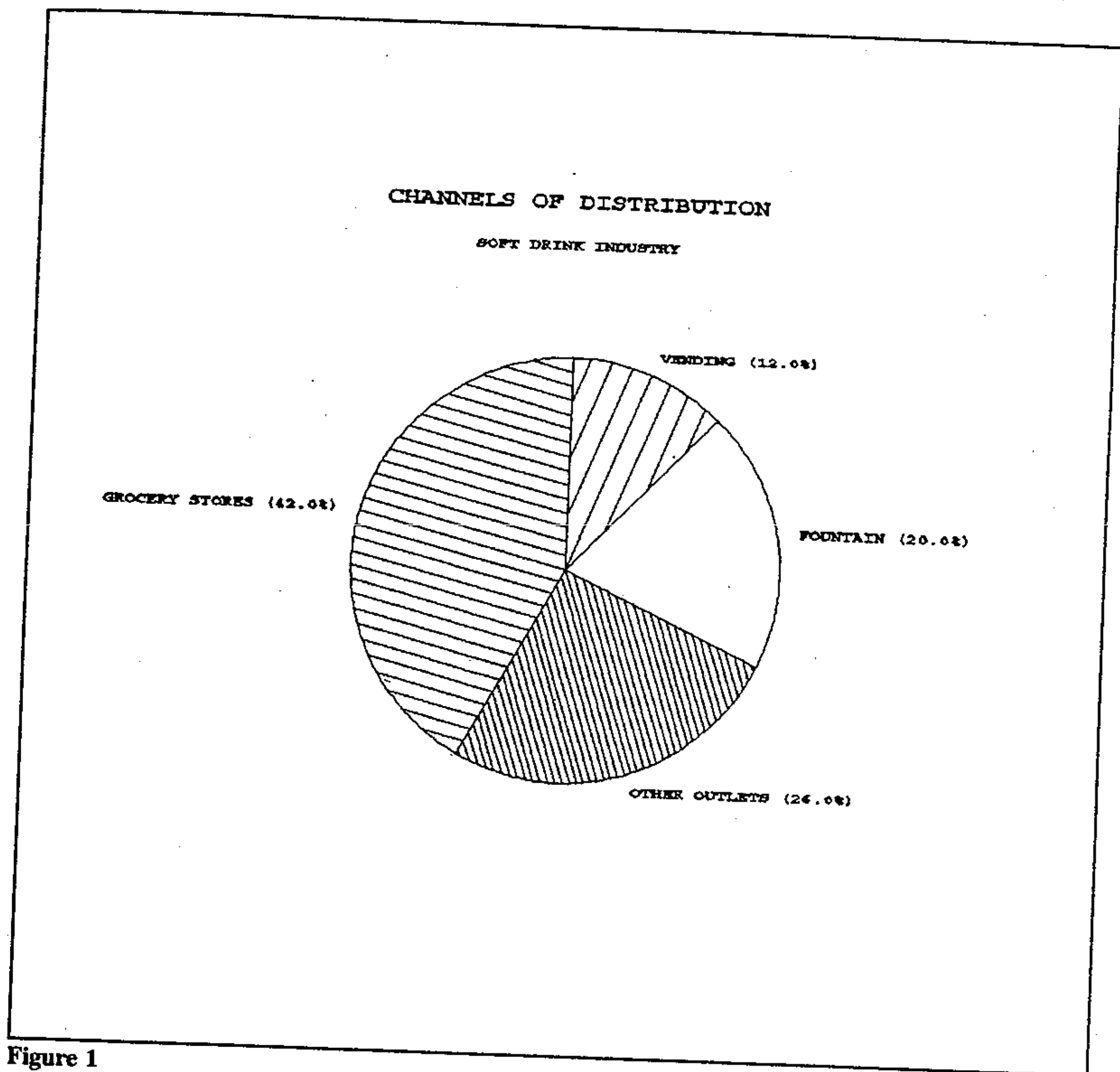

Figure 1
Source: Harvard Business School Report

competitive activities. Levin notes that antitrust laws "do not protect a company from the results of competition--they only protect against practices that eliminate competitive activity in the marketplace." Following that reasoning, Coke and Pepsi dominate the shelves and promotions because they've earned that legal right. The courts recognize that CMAs are the result of vigorous competition between Coke and Pepsi, bringing low prices for consumers and more informational advertising (Prince 1992). Thus, optimal shelf space and end-of-aisle displays are not readily available to the small player in the soft drink industry. Sooder said in an Advertising Age report that "CMAs have locked us out of the retailer's feature ads so we rely instead on in-store sweepstakes and self-liquidating promotions" (Lawrence 1987, p. 54).

The importance of display is underscored by Michael Weinstein, executive VP at A&W Beverages, in an Advertising Age interview. Weinstein says, "You can have the greatest ad in the world, and if the product is not on display at a competitive price, it won't sell." John Albers, CEO of Seven-UP Co. and Dr Pepper Co, also said he believes that advertising from smaller companies will not drive sales when other products are promoted on price by CMAs. "Every market is different because CMAs function differently in each market, but I think pure media advertising by smaller brands will not have a positive impact. This has become a commodity business, and people tend to buy the low-price brand" (p. 54).

Vending Machines

The vending channel has been dominated by Coke with an estimated 50% more machines in the U.S. than Pepsi. The system favors the big players since the bottlers typically purchase machines with financial assistance from the concentrate producers, who in turn offer rebates to encourage bottlers to invest in machines and to allocate most or all of the slots to their products (Irwin 1987). Double Cola is presently expanding its vending machine business to offer 16 ounce cans for 50 cents instead of the 12 ounce industry standard. The vending business appeals to institutional and industrial clients in particular.

Retail Outlets

Other retail outlets include convenience stores, restaurants, movie theaters, caterers, and institutional buyers such as airlines, which serve drinks in cans and bottles rather than from a fountain. Convenience stores have been an increasingly large part of this channel.

Double Cola bottlers find that "mom and pop" stores, convenience store chains, and independent grocers are the most successful retail outlets when competing against Coke and Pepsi (Youmans 1989).

DOUBLE COLA'S DOMESTIC STRATEGY

The Double Cola Company that Charles Little founded has remained a privately held company with the exception of the years it was owned by Pop Shoppes International. Figure 2 traces the major events and changes

of ownership of the company. Little headed the company until 1963, when he sold Double Cola to Fairmont Foods. The company experienced four changes in ownership after Little sold the company, but Double Cola has remained with K. J. International for the last 10 years. Kirby has seen these changes in ownership and commented:

> The only thing that stayed consistent is our product. No one has made any changes. Everyone who has run the company...has been smart enough to recognize that we have something good, and they didn't tamper with that. They tried different positioning of the product, expanded our brands, and moved into the international area, but they never changed the product (1992).

IMPORTANT EVENTS AND DATES IN DOUBLE COLA'S HISTORY

Event	Year
Cherco Cola Co. was established	**1916**
Charles Little organized Good Grape Co.	**1922**
Little purchased the Seminole Flavor Co.	**1927**
Double Cola soft drink was introduced	**1933**
Charles Little sold Double Cola to Fairmont Foods	**1963**
Double Cola was sold to private investors	**1975**
Double Cola merged with Pop Shoppes International	**1979**
K. J. International Inc. purchased Double Cola	**1981**

Figure 2

Source: Company Information and newspaper clippings

Annual per capita consumption of soft drinks in the U.S. has steadily increased through the decades to reach 768 for 1991. Figure 3 shows the trend of increasing consumption for selected available years between 1859-

1990.

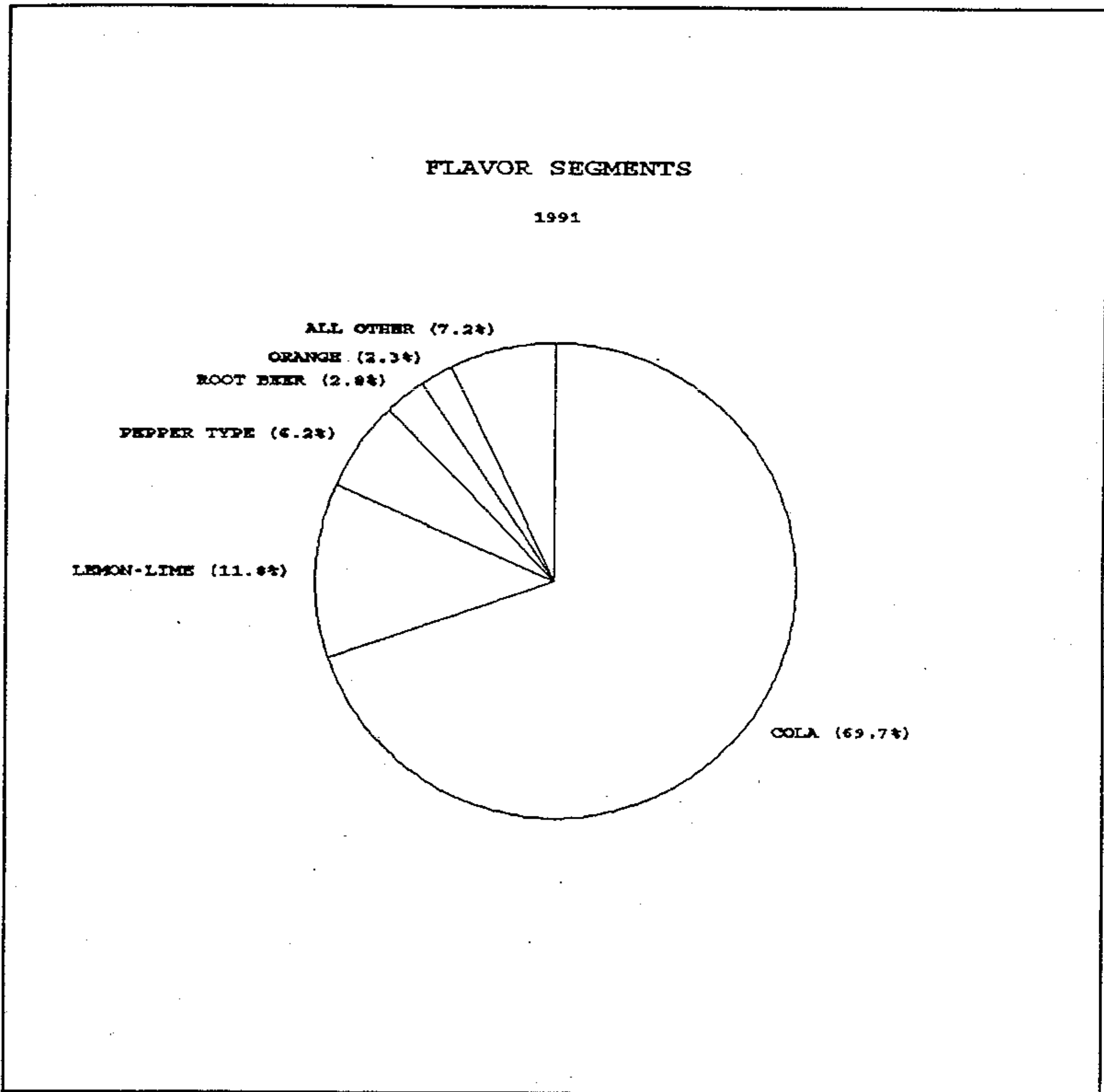

Figure 3
Source: <u>Beverage Industry</u> Annual Soft Drink Report, March 1992

Simmons Market Research shows that soft drinks particularly attract teens and young adults. Among those who consume one or more soft drinks per day, 18-24 year olds are the heaviest consumers. The 25-34 year olds follow with gradually decreasing consumption with age. This pattern is seen clearly with sugared (non-diet) drinks, both colas and non-colas. Men consume more sugared drinks than women, while women consume more diet drinks than men. Among diet soft drinkers consumption is highest between 25 and 65 years old before finally dropping off after age 65. Diet drinkers are more educated than regular drinkers and more likely to hold a professional occupation. Southerners are the heaviest consumers by geographic region (Simmons 1990).

Double Cola products also appeal to the young audience but most heavily to rural, middle class people. Internationally, the Double Cola Company has introduced only the Double Cola product. But domestically the company sells Double Cola; Diet Double Cola; Ski, a citrus soda made from fruit juices; Diet Ski; Chaser; a lemon-lime drink; and a line of Jumbo drinks including grape, root beer, orange, peach, and strawberry flavors (Youmans 1989).

Domestic sales are 70% of the company's total business. In a recent interview for the Chattanooga Times, Shanks emphasized the importance of the domestic market and said, "The biggest soft drinks in the world have their origins in the United States. It's our most important market. We would never leave here." Shanks emphasizes that the ability to compete internationally depends on the kind of success the company can show prospective investors here in the U.S. (Davis 1991).

Kirby agrees that foreign investors in American soft drinks are wealthy people who want to know your credentials--where in the U.S. your company is strong, who drinks your product, and how well known you are. "Not being that well known in the U.S. has kept us from growing as fast as could have...sometimes you get shot down before they have a chance to see how good your product is" (1992).

Shanks estimates that 15 years ago 90% of the company's volume was in the Double Cola brand. The introduction of other products has shifted Double Cola to about 80% of total volume with the remaining 20% divided among Chaser, Ski, and Jumbo (Hemphill 1990). Across the industry cola drinks make up 70% of the total market. Figure 4 shows the percentages of flavor segments.

The citrus soda, Ski, was formulated by Dr. Irwin Barrows, chief chemist for Double Cola, and marketed in 1954. The drink experienced "phenomenal" sales growth, particularly in rural areas. (Kirby, 1992

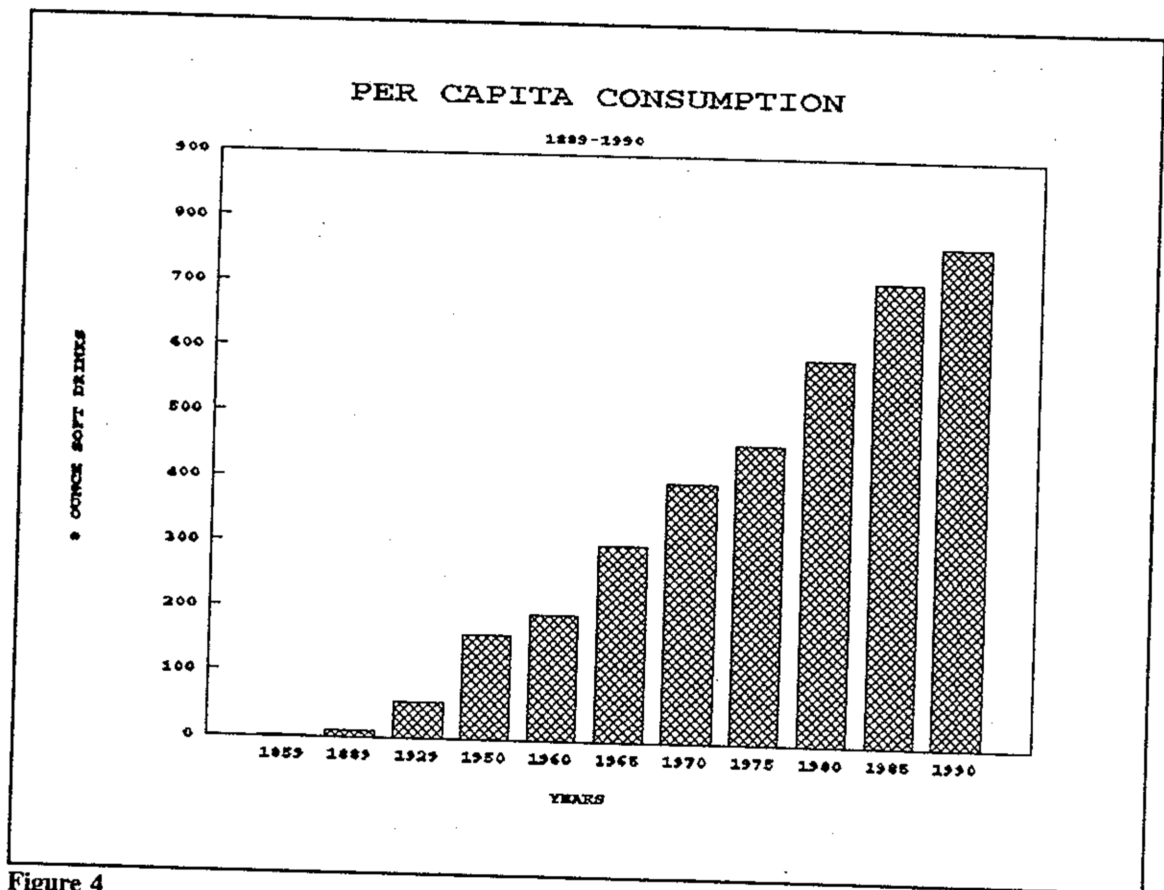

Figure 4
Source: Composite of National Soft Drink Association Sales Survey, NSDA 1975 Report, and Beverage Industry Data (John C. Maxwell)

P.R.) Its popularity is noted in the 1990 hit country song "Dumas Walker" by The Kentucky Headhunters, who grew up in an area where Ski was the number one soft drink. The lyrics tell of "slawburgers and Ski for my baby and me."

Ski ranks third in the lemon-orange soda market behind Mellow Yellow and Mountain Dew. The population segment that Ski attracts has been called the "hillbilly crowd." Sooder says:

> The rural person here in the U.S. to some degree is a counter culture individual--that's why they're out there--leading that kind of life style by design--and those people psychologically tend to turn against slick products and slick advertising. Sam Walton figured that out. We have historically appealed to the same kind of consumer, dealing with them in terms they like to be dealt with--without a lot of slick advertising, slick packaging, promotions and what not. (1992)

The South and Midwest have been the traditional strongholds for Double Cola products, and in certain markets, e.g. southern Indiana, Double Cola outsells Coke and Pepsi. The company's weakest markets are the West Coast and New England (Davis 1991).

Double Cola does not have the financial resources to match the lavish advertising campaigns of Coke and Pepsi. The company aids its bottlers with localized media campaigns and consumer promotions, but without national distribution Double Cola can't afford national media coverage. Double Cola is distributed in about 35 states (Davis 1991), and the company has focused upon regional advertising. Double Cola also advertises in trade publications such as Beverage World and Beverage Industry.

Despite these limitations, Double Cola has experienced steady growth over the decades. Figure 5 shows the volume of consumption from 1967-1991 and the enormous growth in the late '60s. Kirby commented that the company expanded greatly during the '60s when Double Cola changed ownership and that Little had very little interest in disclosing accurate figures to the public. Thus, the figure for 1967 may have underestimated the true consumption (Kirby 1992).

CONSUMPTION OF DOUBLE COLA PRODUCTS 1967-1991

YEAR	CASES (IN MILLIONS)
1967	5.0
1970	23.9
1975	27.2
1980	39.9
1985	39.5
1991	39.5

Figure 5
Source: Beverage Industry Annual Manual-1987 for 1967-1985 figures and Annual Soft Drink Report 1992 for 1991 figures.

Figure 6 shows the top 10 soft drinks for 1991 that Double Cola competes against. Double Cola cannot compete with these giants by image or brand awareness. Instead it relies on larger bottles than the industry standard and a lower price than the competition. Double Cola offers a 20 oz. bottle in place of the competitor's 16 oz. bottle and markets the product as having 4 ounces free. In the Atlanta area the 20 oz. bottle sells for 49 cents, while Pepsi and Coke sell their 16 oz. bottle for 59 cents. Coke also markets a 20

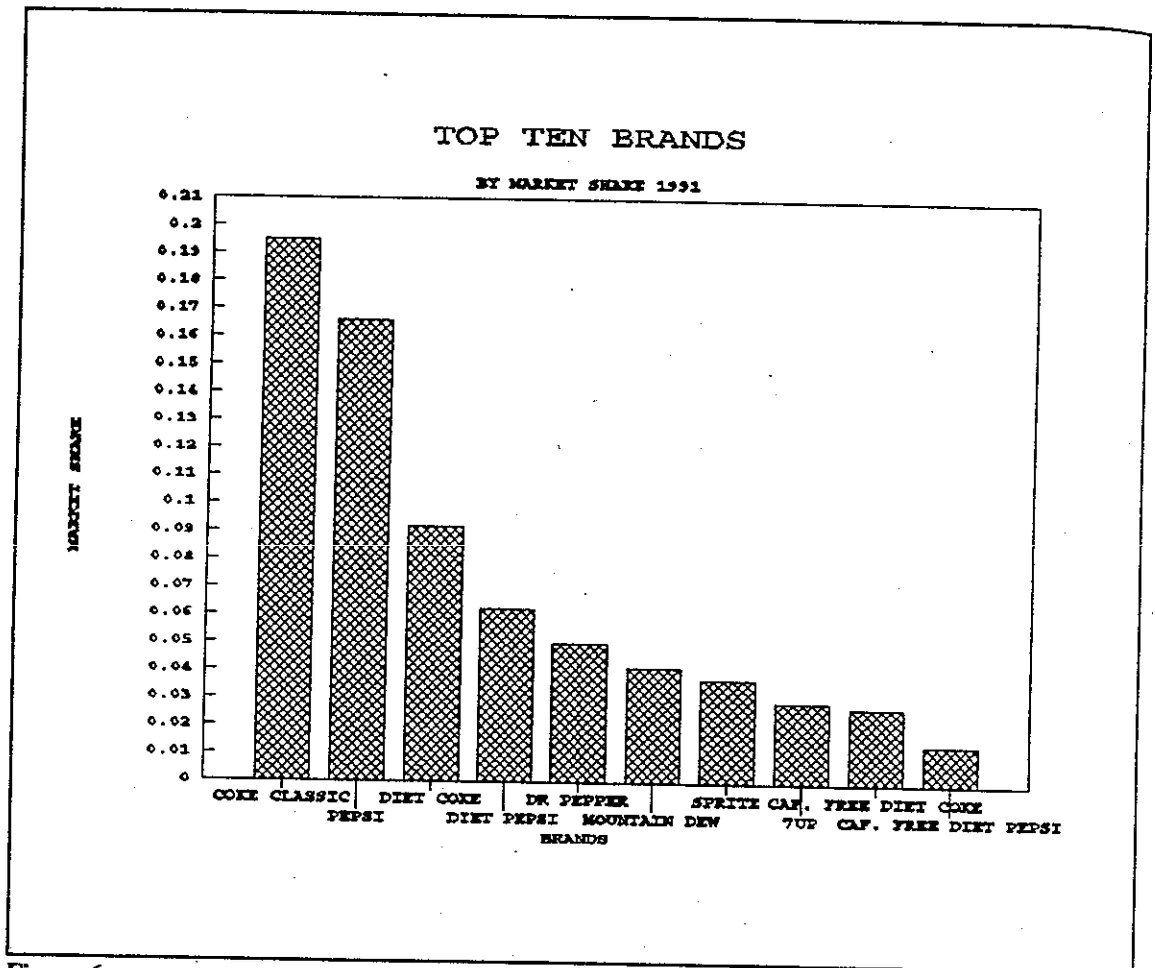

Figure 6
Source: <u>Beverage Industry</u> Annual Soft Drink Report
March 1992

oz. bottle for 69 cents.

The newest competitor is Sam's Choice, Walmart's cola beverage. Kirby does not believe it threatens Double Cola as much as it does Coke and Pepsi. Smaller companies anticipated some competition, but Coke and Pepsi didn't expect it could hurt them. Private label products have been on the market before, but not with such volume. Kirby does not know how Double Cola will be affected in the long run, but he feels Sam's Choice could have an impact on the whole market (1992).

DOUBLE COLA'S INTERNATIONAL STRATEGY

International sales offer attractive opportunities for all soft drink companies because there is such potential growth in consumption. Most market analysts see the U.S. market as a mature one which leaves little room for growth. Many new products on the market, e.g. bottled water, challenge future soft drink growth. The foreign market, however, is a different picture. Shanks was quoted in 1991 as saying, "There are 250 million people in the United States. That leaves 4 billion everywhere else. Those are growing consumer markets in their infancy" (Davis). For example, India's consumption is just three bottles per capita compared to 768 in the U.S. (Levandoski 1992). With a population exceeding 850,000,000 the potential growth is enormous.

Neighboring Pakistan's per capita consumption is estimated to be 13 bottles.

The international market entices many U.S. soft drink companies. Coke and Pepsi are available in over 150 countries with Coke earning 66% of its soft drink revenues and almost 80% of its soft drink operating earnings abroad. Pepsi earns 50% of its soft drink revenues and 15% of its soft drink operating earnings outside the U.S. (Chakravarty 1989). Shanks places Double Cola's international sales at 30% of total sales and eventually hopes it increases to 50% (Shanks 1987). Currently Double Cola operates in India, Pakistan, Mexico, Canada, Japan, Syria, Ireland, Kenya, Tanzania, United Arab Emirates, Puerto Rico, Italy, Belgium, Syria, Nigeria, Oman, and Bolivia.

Although the huge potential growth of the international market attracts all players, certain aspects of this market are especially appealing to the small player. First, the brand images of Coke and Pepsi are not so entrenched in the lesser developed countries as they are in the U.S. According to Shanks:

> Demand for consumer products outstrips the supply lines...that environment offers opportunities even for smaller companies to develop brand equity and strengths...Coke and Pepsi have financial resources that we will not be able to match. If we go into any market, whether it be in the U.S. or international, and try to do it head to head with either of those companies...playing into their strengths, we will lose. We've got to be selective about the things that we do--be very focused, and show a high degree of flexibility...(1992).

Inhabitants of many Third World countries appear more interested in value than image. In Bolivia, Double Cola offers a 25% larger drink than Coke and Pepsi for the same price. This strategy has put Double Cola in the number two position in the market with a 45% share. Coke dominates the market while Pepsi occupies the number three position (Lukasick 1989).

Second, the channels of distribution allow the small player to compete more effectively. In Third World countries on-premise sales (kiosks or stands that sell individual bottles of cold soft drinks) comprise the vast majority of sales. In Bolivia, supermarkets account for only one to two percent of the national soft drink business. Even in La Paz there are fewer than five supermarkets. The CMAs that decrease the strength of small players in the U.S. supermarkets don't exist in the international market. Furthermore, the absence of vending and fountain channels makes Third World countries even more attractive for Double Cola in comparison to the U.S. market where Coke and Pepsi dominate those channels (Lukasick 1989).

Third, soft drinks are the ultimate American product. Sooder believes that "soft drinks have some parallel with fast food and blue jeans" (Hemphill 1992). Sooder says, "Soft drinks are seen by consumers as affordable luxuries, and it is up to them to decide whether to spend their money on chewing gum, cigarettes, or soft drinks...Those are the three major Third World self-indulgence products." (1992)

Sooder points out that American brands are often considered superior to the indigenous brands among Third World inhabitants. Additionally, the quality control of American products makes them more consistent. Sooder says:

> American produced soft drinks are superior in quality--superior in taste--and a large part of the explanation for this is a good cola formula such as Coke, Pepsi, and ourselves. We have as many as 30 different flavor ingredients, and some are expensive--some are very expensive. Some are very hard to source...They're difficult to find in a lot of foreign countries, and it's tempting to an indigenous brand to skip those ingredients as long as [the drink] is dark brown and tastes somewhere in the ball park...But the human palate can pick up a lot of subtle differences that can't be quantified.

In the U.S., Double Cola lacks the image appeal of Coke and Pepsi. Yet in the third world, simply being an American soft drink gives it a desirable image. Soft drinks can enter a new market and establish a positive image quickly instead of spending vast advertising dollars to create that image.

The international market is not without its own unique challenges. It is necessary to understand foreign consumption patterns when marketing to a different culture, and distribution and marketing can be difficult. Sooder explained that producing the concentrate in a foreign country may cost less than incurring the shipping expenses to that country, but it is more difficult to maintain quality control outside the U.S.

Producing an American product that competes with indigenous brands can also create animosity among native businessmen. Double Cola experienced a boycott in India that Kirby says could have been more quickly resolved if the company had the resources of the big players.

The story of Double Cola's entry into India provides insight into the nature of competition in the Third World. Coke and Pepsi were both operating in India, but Coke left in 1977 amidst political controversy. One version of the story is that "the Janata government demanded that Coke transfer its proprietary syrup formula to an Indian subsidiary, knowing full well that Coke would withdraw from the country rather than part with its most closely guarded trade secret" (Chakravarty 1989). Pepsi was forced out in the late '50s "because it couldn't get a toehold in the market" (Rafft et. al. 1987). Without participation by either Pepsi or Coke, India's two largest soft drink bottlers, Thumbs Up and Champa Cola, controlled 80% of the market.

Although both Pepsi and Coke tried unsuccessfully to re-enter India in the mid '80s, Double Cola entered in May of 1987 with the status of the only American soft drink company. Pepsi soon followed in September, 1988 under a joint agreement that allows Pepsi a 40% interest while partners Punjab Agro Industries and Voltas own 36% and 24% respectively (Chakravarty 1989).

India has stringent non-resident investment laws that generally limit investment by foreign nationals to less than 50%. Double Cola, however, is owned by K.J. International, Ltd. of London whose vice chairman and CEO, Alnoor Dhanani, is a non-resident Indian. Indian law extends the same investment rights within the country to non-resident Indians as those enjoyed by Indian nationals. Dhanani's status gives Double Cola an advantage over American owned companies by not requiring the company to enter into a joint agreement that limits ownership to less than 50%. Double Cola established a new Indian company, the Double-Cola Manufacturing Co. Private Ltd, a privately held company including investors from the U.S. company who made investments on a non-reparation basis (Davis 1991). India prohibits the importation of soft drink concentrates, forcing soft drink companies to produce their syrups within India. The company manufactures the concentrate with locally obtained raw materials in Bombay and other southern cities, and as franchises increase, distribution will expand to other areas (Hemphill 1987). There are plans to establish 30 bottling plants around India.

John Simmons of the Office of South Asia, U.S. Dept. of Commerce, confirmed that Pepsi had a great deal of difficulty getting its joint venture approved, and that the final agreement required Pepsi to export 75% of what it produced in India. "They're exporting a lot of the food they are processing, so their soft drink sales domestically [in India] are a fairly small part of their activity" (1992). The agreement also requires Pepsi to establish a research center to develop new varieties of fruits and vegetables that would be better suited to India's climate and soil conditions, in addition to setting up two processing plants (Chakravarty 1989).

Many analysts believe the real money-maker for Pepsi will not be in soft drinks but in selling potato chips and other snack foods to third country markets, which should raise foreign-exchange earnings (Clad 1990). Simmons said, "Coke has also been trying to get in for a long time and just recently signed a joint venture agreement with Britannia. They'll be doing things other than soft drinks as well" (1992).

What makes India an especially appealing market is that by 1989 the country had a middle class of about 150 million people with disposable income to spend on cars, VCRs and soft drinks. Moreover, this Indian middle class is estimated to be growing at 10 million per year (Chakravarty 1989). The Indian market produces about 60 million cases of soft drinks annually--only a fraction of the nearly seven billion cases produced in the U.S.--but the Indian market is expected to double in the next five years (Hemphill 1987).

Double Cola is India's second largest selling cola, behind Thumbs Up, an Indian colá that has national distribution.

The cost of 25 cents per bottle is very expensive for a lower middle class family earning $500 per year. But with more dual income couples earning about $2,000 per year and having smaller families, the cost of a soft drink is within reach, though still a luxury. India's extremely hot climate makes a cold drink a year-round product rather than a seasonal one and a necessity rather than a luxury (Krishnan 1992). Temperatures in the southern part of India hover around 120 degrees in summer and only drop to 100 degrees in the winter months of November and December. Thirty percent of the population lives in urban areas where eating out is becoming more common, although the beverage stands are still the primary channel of distribution.

Krishnan notes that while statistically the per capita consumption is three per year, there are those who consume two or three soft drinks a day and others who consume none. Many older people consume fruit drinks, flavored milk drinks or water instead of soft drinks. Thus, the per capita figure of three may be a poor reflection of true consumption patterns.

Only time will tell whether Double Cola will be stronger competitor in the international market than in the domestic market. The major players are clearly not going to turn India's lucrative market over to a small player without a fight.

The top players in an industry are often companies that have been led by visionaries like Robert Woodruff of Coca Cola. But not all companies are fortunate enough to have leaders of this caliber. Companies such as Double Cola that have had eccentric founders and numerous changes in leadership are at a severe disadvantage, often engaging in a game of catch-up. Catching up with Coke or Pepsi is beyond the reach of Double Cola, but the international market offers Double Cola a chance to expand to a less competitive frontier where the mistakes of their past may make less of a difference.

Shanks has said that the international industry is where the U.S. was 50 to 70 years ago. Perhaps the lost opportunities, lack of vision, and poor execution in the early history of the company make it impossible for Double Cola to emerge as a giant in the domestic market, but the international market offers the unique chance to operate from hindsight, anticipate the future, and correct the mistakes of the past.

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