

Pepsi AM Breakfast Soda: Classic Case Study

Introduction

Way back in the 1980s, Pepsi introduced a new product called Pepsi A.M. As you can tell by the letters AM - it was a morning drink. Or more precisely, it was positioned as a great product to start your day at breakfast time.

The idea behind the product was that people could start their day with a can of soda instead of coffee. Both coffee and Pepsi have caffeine, so in theory, these two products are indirect competitors.

The new product was put through market testing in some regional areas, and then in some mid-sized cities. However, despite these initial efforts and getting Pepsi A.M. to production and distribution stage of its new product process, PepsiCo did not deem the new product worthy of a national launch.

According to the New York Times in 1990, they reported:

PepsiCo also announced yesterday that it was ending the test-marketing of a high-caffeine version of Pepsi-Cola, known as Pepsi A.M. Soft-drink marketers have known for years that an increasing number of adults were drinking cola drinks in the morning in place of coffee, whose consumption has been slowly declining.

But unlike the Coca-Cola Company, which simply encouraged coffee drinkers to try regular Coke in the morning, Pepsi added 25 percent more caffeine to its Pepsi A.M. drink.

Your Task

In this activity, you are going back in time to a meeting of Pepsi managers discussing whether they should launch Pepsi A.M.

Here is part of the manager's discussion at the time...

John: As you all know, I'm in favor of rolling out Pepsi A.M. This is a great opportunity to grab a unique market position and to further differentiate ourselves from Coke.

Susan: I'm on board with that view. We're risk takers here at Pepsi, whereas Coke always plays it safe. This product helps send a message to our customers that we are an innovative brand.

Steve: Sure, they are good points, but I'm just not convinced. The test marketing results were mixed. I would have preferred to have seen some stronger numbers.

Tom: I know that the test numbers could have been stronger, but Pepsi for breakfast is a new concept for many consumers. It will take time for us to grow this part of the market. I think that it is too early to give up on the product. In my view, it's worth a shot.

Maria: The numbers could be argued either way. But I want to go back to the point about positioning. I take the opposite view, I'm concerned about damaging our brand, especially with a product that may not be well-received across the broader market.

Jackson: Maria's right. And to add to her point, I think that we could get some negative media publicity as well. You know, because we might be seen as "*pushing*" Pepsi too hard by also promoting it as a breakfast drink. Some people argue that too much Pepsi in a day is not healthy for you.

Maria: Good point, that's another risk to our brand, and for what will be a relatively minor product line extension for us.

Mike: Well, if we think that even if we launch it then sales won't be great, then we need to think about return on investment. There's production and marketing costs to recoup against smallish likely revenue. May be there are better new product opportunities that we should consider?

Tom: I know what you're saying, but that's based on today's sales. We need to look long-term. Pepsi A.M. is a product that has potential. We need to look at future sales as this part of the market grows.

Maria: But in what way will it grow? Are we likely to attract more new customers to Pepsi A.M., or are we simply going to cannibalize our normal Pepsi sales from existing customers?

John: Probably a mix of both. But there should be an incremental increase in sales as we encourage consumers to switch from their morning coffee to their morning Pepsi.

Jessica: That's a big ask. Drinking coffee in the morning is a social activity and it is a norm. I'm not sure how many people want to be seen drinking Pepsi for breakfast. That is likely to have some social embarrassment for them. That's going to cut down the sales potential.

Susan: But that's our role as marketers, to make a morning Pepsi a part of a consumer's morning routine. If it was already part of normal life, then we would already have a Pepsi A.M. style product out there.

Steve: Well, the more we discuss Pepsi A.M., the more confused I am getting. I'm just not sure what we should do. Let's take a break and meet back up in a few days to make our final decision.

Student Discussion Questions

Case Study Questions

1. What is the difference between direct and indirect competitors?
 2. What market testing was undertaken (based on the above information)? What information is market testing designed to deliver?
 3. Given that there is a segment of consumers who now drink energy drinks and/or sports drinks in the morning - do you think that Pepsi A.M. was a product before its time and might be successful in today's marketing environment?
 4. If you were part of Pepsi's marketing team in 1989, would you have decided to fully launch the product nationally?
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Role Play Activity

1. Outline the main for and against arguments (both from the above meeting and your own ideas) for continuing with Pepsi A.M.
2. Which side (for or against) do you think is the strongest? In other words, if it was your decision, would you continue with Pepsi A.M. or pull it from the market?
3. In your student groups, play the role of a Pepsi manager (with your views from Q2 above) in a meeting with other students (also acting as Pepsi managers). In the role play, be prepared to answer, "What should we do and why"?