

HISTORY OF THE USE OF BUSINESS FRANCHISING IN THE AMERICAN SOFT
DRINK INDUSTRY

by

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DEDICATION

I dedicate this thesis to my clients in the soft drink industry. In working with franchised bottlers over my thirty-five year professional career, I have met many hardworking and dedicated people. It is my belief that the franchised bottlers built Coca-Cola, Pepsi-Cola, and Dr. Pepper into the mammoth corporations they are today. I am fortunate to be able to make a small contribution by telling the story of soft drink bottlers.

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1. INTRODUCTION AND HISTORIOGRAPHY

Whenever business franchising is mentioned today, most people think of fast food restaurants such as McDonald's. In fact, business franchises date back at least as far as the eighteenth century, and were in use in the United States by the mid-nineteenth century in industries such as sewing machines and farm implements.¹ Franchising influenced the development of several major industries, including the American soft drink industry.

The United States has the highest soft drink consumption rate in the world. The American per capita consumption of soft drinks in 2002 was over seventy percent larger than the next two countries of Ireland and Canada.² In fact, the American annual per capita soft drink consumption has grown from approximately ten gallons in 1947 to almost forty-one gallons in 1997.³ Although one may be dismayed over the detrimental health effects of soft drinks, from a business perspective, the American soft drink industry has achieved remarkable sales success.

Today, soft drink manufacturers are some of the largest corporations on the planet. In virtually every country around the world, you can find products such as Coca-Cola, Pepsi-Cola and Dr. Pepper. By 1980, soft drink manufacturers were some of the largest corporations in the country with two soft drink manufacturing companies ranked

¹ Thomas S. Dicke, *Franchising in America, The Development of a Business Method, 1840-1980* (Chapel Hill: The University of North Carolina Press, 1992), 150.

² NationMaster, "Lifestyle > Food and Drink > Soft Drink > Consumption: Countries Compared," <http://www.nationmaster.com/country-info/stats/Lifestyle/Food-and-drink/Soft-drink/Consumption>, (accessed September 29, 2016).

³ Judy Putnam and Shirley Gerritor, "Trends in the U.S. Food Supply, 1970-97," US Department of Agriculture, http://www.ers.usda.gov/media/91042/aib750g_1_.pdf, 10 (accessed September 29, 2016).

in the American Fortune 100 list.⁴ Yet each of these companies had very humble beginnings. This thesis argues that the soft drink industry became prominent in the United States by developing distribution through the innovative and creative use of business franchising.

I chose this thesis topic based on experience acquired during my professional career. An accountant and CPA by training, I worked as a software supplier and consultant to the soft drink industry across the United States and Canada for over thirty-five years. The majority of my clients were family businesses that had franchise agreements to sell Coca-Cola, Pepsi-Cola, Dr. Pepper, and other soda brands in a geographic territory. I have always been curious about the history of soft drink franchisees and why their role in the development of this industry was virtually unknown.

The definition of a franchise as it pertains to business is the right or license granted to an individual or group to market a company's goods or services in a particular territory.⁵ Typically, the manufacturer grants another person or company, known as the franchisee, the right to sell their product in a geographic area. The manufacturer sells their product to the franchisee at a wholesale price. The franchisee is responsible to resell the product in their defined territory. The franchisee may also have specific obligations, such as a place of business, method of selling, expected sales levels, etc. This arrangement benefits the manufacturer by providing sales of their product across a wider area.

⁴ Fortune500, "1980 Full List," http://archive.fortune.com/magazines/fortune/fortune500_archive/full/1980/, (accessed September 29, 2016).

⁵ Merriam-Webster, "franchise," <http://www.merriam-webster.com/dictionary/franchise>, (accessed September 29, 2016).

The franchisee also benefits from this arrangement. They are able to sell a developed and possibly proven product, thus saving the cost of devising the product on their own. They may have protection in their territory from other parties selling the product. The business franchise method helps them through the use of a proven and standardized method for their business. They may also gain an advantage with a well-known brand name.

The historiography of American business franchising in the soft drink industry is diffuse. Although soft drink franchisees are mentioned, most of the literature is focused on the manufacturer, with little from the perspective of the franchisee. Much of the writing deals with the topic of contention in the channel of distribution, as manufacturers vie with their franchisees for control of product sales and financial returns in the marketplace. Legal histories address the business franchise agreements, especially the concept of exclusive territories. The field of economics makes a contribution through theories on the characteristics of industries where business franchising is most likely to be used.

A major gap in the historiography is a good explanation as to why business franchising was used and how it came to be so successful within the soft drink industry. This massive growth did not occur in other countries where business franchising was not used in the same manner. This thesis argues that it was the way business franchising was used by American soft drink manufacturers that made this industry successful.

The historiography of the soft drink industry is dominated by works about Coca-Cola. This is understandable, given its historic dominance and iconic status in the industry. Within the historiography of business franchising, one of the major topics

pertains to the first franchise contract signed by then Coca-Cola owner Ada Candler in 1899. The literature tells the story of how this agreement became a model followed by many other companies in this industry. Constance Hays described how Benjamin Franklin Thomas and Joseph Brown Whitehead proceeded to set up franchises for the production and sales of bottled Coca-Cola across the country, totaling four hundred by 1909.⁶ They looked for ambitious businesspersons, who were hard working and independent minded. They became spectacularly successful, and within a few years Coca-Cola was distributed from coast to coast. Hays' summary of the monetary success of Coca-Cola bottlers provides an insight into why the business franchise arrangement was successful and also became a source for conflict, as Candler's original agreement was perpetual and did not include the power of the manufacturer to terminate the franchise.

Mark Pendergrast argues that by the 1970s, it was evident that there were too many bottlers, and he points to this as the reason that Pepsi-Cola was able to rival Coca-Cola in national sales.⁷ For decades, numerous Coca-Cola leaders attempted to change the franchise agreement and gain control of their product distribution. It took until 1986, with massive expenditures to buy out the franchisees, for Coca-Cola to gain the power to control their channel of distribution.

Louis and Yazijian point to the Candler agreement with Thomas and Whitehead as one of the most important documents in American business history. They also point out how Pepsi-Cola, incorporated in 1902, employed the same franchised bottler method

⁶ Constance L. Hays, *The Real Thing, The Truth and Power at the Coca-Cola Company* (New York: Random House, 2004), 25.

⁷ Mark Pendergrast, *For God, Country and Coca-Cola* (New York: Collier Books, MacMillan Publishing Company, 1993), 310.

as Coca-Cola. By 1909, Pepsi had over two hundred fifty bottlers in 24 states.⁸

Somewhat surprisingly, the Pepsi franchise agreement did not include the perpetual clause, although the authors did not identify how they were able to avoid the problems of Coca-Cola.

On the positive aspect, Mark Pendergrast argues that the Candler agreement gave birth to one of the most innovative and dynamic franchising systems in the world. His book details some of the basic reasons why the franchise agreement fit, something the author describes as the prototype of the American franchise system.⁹ Although the agreement gave the partners exclusive marketing rights to virtually the entire United States, they did not have the capital necessary to nationally market their product. Instead, they sold franchises to local entrepreneurs who were willing to invest money and time to market and produce Coca-Cola within an exclusive geographic region, often as small as fifty square miles. Within ten years, their efforts had paid off with many successful bottlers, and a franchise that was pursued by many entrepreneurs.

One of the few works that delves into the history of business franchising is Thomas Dicke's titled *Franchising in America*. Dicke details the development of franchising in the United States from its beginnings in the mid-nineteenth century through the 1970s. He traces a steady improvement in the sophistication of franchising methods as the American economy matured, and as infrastructure such as communications and railroads developed. Unfortunately, his work includes very little information on the soft drink industry.

⁸ J.C. Louis and Harvey Z. Yazijian, *Cola Wars*, (New York: Everest House, 1980), 49, 30.

⁹ Pendergrast, 83, 74.

John J. Riley made a contribution to the historiography of the soft drink industry through his role as an executive of its trade association. The 1958 publication *A History of the American Soft Drink Industry* traces the development of the industry from colonial times through the 1950s. Riley is focused on the development of soft drink products and their production methods. His references to franchising are more anecdotal, such as the reference that by 1920, almost 5,200 plants were producing Coca Cola across the United States. Other companies adopted this approach, such as Dr. Pepper in 1926.¹⁰ Unfortunately, the use of franchising in this industry is given very little attention, even though the author acknowledges the importance of independent franchised bottlers in the growth of this industry.

A work by Louis and Yzizjian contains a chapter titled “Bottler’s Apprentice”. This provides some interesting insights into the franchised bottlers. The authors contend that Coke’s bottling franchises have produced more millionaires than any other similar method in business history. They also discuss how the independent bottlers reflect the pride and plight of small business. This is significant, as bottlers were neighborhood businesses within their communities, and because of this were much more attuned to the local community than would be a remote company head office. The authors also point out the importance of the bottler’s use of the direct store delivery method, allowing them to better control shelf space at retail stores.¹¹ These points could have been developed further, as they were critical factors in the success of the franchised bottler. Their work does not contain a bibliography, but based on the endnotes, it is evident that the major

¹⁰ John J. Riley, *A History of the American Soft Drink Industry, Bottled Carbonated Beverages, 1807-1957*. (New York: Arno Press, 1972), 137, 140.

¹¹ Louis and Yzizjian, 310, 319.

sources were newspapers and trade associations, where news from the parent companies dominated.

In a similar vein is *Citizen Coke* by Bartow J. Elmore. The author delves into the development of the Coca-Cola Corporation and how it exploited public resources around the world to build its corporate empire. His work includes a brief summary of the development of the Coca-Cola franchised bottler network and how it developed into a nation-wide production and distribution system.¹² Elmore also details the disastrous results when Coca-Cola dramatically changed to vertical integration and ownership of its supply chain in 1986 by buying out many of its franchised bottlers and the resulting massive losses with this Coca-Cola Enterprises venture.¹³ Although business franchising is not the focus of his work, Elmore's references to the franchised bottlers contributes to the understanding of how Coca-Cola made use of these businesses to build its success.

As with many business histories, the soft drink industry historiography includes literature published by corporations or by people closely associated with these companies. These works tend to provide an overly glowing portrayal, although they can be sources of nuggets of useful information. An example is *Pepsi-Cola 100 Years* by Bob Stoddard. This publication coincided with the one hundredth anniversary of the introduction of Pepsi-Cola. Although he pays lip service to the prominence of bottlers in Pepsi-Cola's success, the evidence that Stoddard provides is sketchy. He describes how Pepsi-Cola's first franchise bottler agreement was signed in 1905, and there were 250 bottlers by the end of 1910.¹⁴ The use of franchised bottlers provided a major growth

¹² Bartow J. Elmore, *Citizen Coke: The Making of Coca-Cola Capitalism*, (New York: W.W. Norton & Company, Inc., 2015), 21-36.

¹³ *Ibid*, 283-284.

¹⁴ Bob Stoddard, *Pepsi-Cola 100 Years*, (Santa Monica, California: General Publishing Group, 1997), 32.

spurt, as sales of Pepsi-Cola syrup quadrupled between 1904 and 1908. Unfortunately, Stoddard does not explore the role of the franchised bottlers nor why Pepsi-Cola chose franchising as the method to distribute their product.

Stoddard also tells the story of Pepsi Cola's success during the 1950s when the company rose to become the prime competitor to Coca-Cola. Alfred N. Steele was president during this decade, and he quickly recognized that repairing the rift between the manufacturer and its bottlers was critical to the company's success.¹⁵ Steele worked to enhance communications with the bottlers, improve quality, and to introduce new products that the bottlers would support. Pepsi-Cola also revamped its approach to marketing, increased its national advertising and made use of endorsements. By 1960, Pepsi-Cola sales had grown more than six fold over the decade. Unfortunately, outside of these clues, Stoddard does little to tell how the bottlers, who were still the primary sales and distribution method for Pepsi-Cola at this time, contributed to this growth.

Stoddard makes another contribution to the historiography with his 2010 publication *True Blue*. He tells the story of a number of Pepsi-Cola bottlers and how their businesses evolved over the years. The introduction includes an excerpt from the Pepsi-Cola Corporation's 1951 annual report that describes how success of the parent company depends on the success of the franchised bottlers.¹⁶ It also provides some information on the challenges the franchisees faced in the first decades of the 20th century. The family business aspect is highlighted with twenty stories of family businesses that had franchises.

¹⁵ Ibid, 114.

¹⁶ Bob Stoddard, *True Blue*, (Lake Elsinore, California: Double Dot Enterprises, 2010), 5.

Unfortunately, Stoddard's information is fairly superficial, and leaves the reader wanting more detail and explanation. Based on a video that was also released at the same time it is evident that his work is based on interviews and is generally a set of family reminiscences. Some of the family histories read almost as a telephone book, more concerned with mentioning family members instead of telling how the family business grew. As well, Stoddard only included families that currently had a Pepsi-Cola franchise. With all the bottler buyouts that occurred since 1980, this left out many families and businesses, particularly in larger cities, who contributed to the success of Pepsi-Cola. With only sixty-four pages and including many vintage photographs, it is understandable that only a limited amount of detail could be included.

Stoddard also authored a 2011 work titled *How Pepsi Got Its Name and Other Pepsi-Cola Stories and Memories*. This work is a collection of anecdotes and facts about the history of Pepsi-Cola. It contains some interesting stories such as the legend that the name Pepsi was derived from Pepsin, an enzyme in the stomach that assists digestion.¹⁷ Stoddard also claims that the assets and Pepsi trademark was offered to Coca-Cola for \$10,000 in the 1930s.¹⁸ For franchising, one chapter details how a Pepsi-Cola franchise could be acquired in the late 1930s for \$315, with the buyer receiving Pepsi concentrate, bottle crowns and labels, in addition to an exclusive territory. As the author states, these franchises were worth millions of dollars twenty years later. Unfortunately, this is the only reference to business franchising, so it has little contribution to the historiography of soft drink business franchising.

¹⁷ Bob Stoddard, *How Pepsi Got Its Name and Other Pepsi-Cola Stories and Memories*, (Lake Elsinore, California: Double Dot Enterprises, 2011), 22.

¹⁸ *Ibid*, 24.

A fairly detailed history of Pepsi-Cola is found in a 1962 work by Milward W. Martin's 1962. Martin traces the history of the Pepsi-Cola brand and company since its founding in New Bern, NC through the 1950s. His work adds some interesting views to the historiography. It highlights how the inventor of Pepsi-Cola, Caleb D. Bradham, enjoyed a gold rush style success between 1905 and 1910, as 280 bottlers across twenty-four states sold Pepsi products.¹⁹ He also provides a good description of the events shortly after World War I, where miscalculations on the sugar market price escalation and crash led to the bankruptcy of the Pepsi-Cola Company. Martin includes a good narrative of how Charles G. Guth resurrected the company in the 1930s, and details the lawsuits with his shareholders that eventually led to his ouster from the company. Martin also provides a good summary of the dramatic improvements introduced under the leadership of Alfred N. Steele in the 1950s.

In terms of business franchise historiography, Martin treats the Pepsi-Cola franchised bottlers as a bit player, providing a scorecard on bottler results, but with little analysis into the role they played in the success and rebirth of Pepsi-Cola. The statistics on the number of bottlers provide an interesting reference, but the reader does not gain insight into their role. As well, the revamped bottler organization that Steele implemented in the 1950s is ignored altogether.

A unique interpretation is found the 1980 publication by J. C. Louis and Harvey Yazijian titled *Cola Wars*. The authors trace the rise of Coca-Cola and Pepsi-Cola, and their heated competition that arose after World War II, culminating in the Pepsi Challenge promotion of the 1970s. The unique aspect of this work is their correlation of the success of these two companies to movements in American history. They argue that

¹⁹ Milward W. Martin, *Twelve Full Ounces*, (New York: Holt, Rinehart and Winston, 1962), 25.

sales of Coca-Cola benefited from southern nationalism and religious fundamentalism.²⁰ They show how the pledge to supply World War II servicemen everywhere in the world at a nickel a bottle turned into a massive public relations victory, while at the same time sheltered the company from many of the effects of sugar rationing. And the authors trace how Pepsi-Cola was able to position itself into Cold War politics, culminating in Pepsi's prominence in the Nixon-Khrushchev meetings. Unfortunately, the book does not refer to participation of the franchised bottlers in these trends.

In the historiography of businesses, corporate histories published by a company are something of a wild card in terms of quality. Although they may provide detailed information on the company, influences of the company public relations department can turn these sources into little more than self-serving advertisements. Unfortunately, this label can be applied to Jeffery L. Rodengen's 1995 work titled *The Legend of Dr. Pepper / Seven-Up*. The author provides some interesting statistics on the growth of both companies. For business franchising, it follows the trend to briefly mention the independent franchises, acknowledge their role in the company's success, but reveal little detail on their actual role in company development. Both Seven-Up and Dr. Pepper companies faced difficulties during the 1920s, with Dr. Pepper declaring bankruptcy in 1923. Aggressive recruitment of bottlers in the 1930s was critical to 7UP's rise to the third most popular soft drink in the United States by 1950. The author also refers to the executive vice president's plans in 1966 to recruit the best bottlers in the market to

²⁰ Louis and Yazijian, 410.

become Dr. Pepper bottlers.²¹ However, he does not elaborate whether this plan was successful or how it contributed to the company's growth.

Another self-published work of the Dr. Pepper Company is provided by Harry E. Ellis, long time archivist for the company. Ellis traces the history of the company from its beginnings in 1885 through to the 1970s. Ellis describes how Dr. Pepper grew into a regional soft drink supplier in the decades prior to World War II. Aggressive recruitment of franchised bottlers after the war led to dramatic growth of company sales. By 1960, Dr. Pepper was distributed across the United States. Ellis refers to the franchised bottler network as critical to success. However, he never explains the reasons why franchising was used, nor how it contributed to the company's success. Ellis includes an entire chapter on the bottler network, but it reads more as a family history, as he merely lists almost every Dr. Pepper franchise owner through the 1950s.²² An interesting aspect of this list is the degree to which family businesses were almost the universal owners of the franchises. In other sections, he refers to some bottler activities, but more as anecdotes than actual analysis. The reader is left with a major gap in the business history of Dr. Pepper.

Susan T. Hessel provides a history of a soft drink franchisee titled *Pepsi in his Blood*. Her work is a biography of Norman Gillette Sr., who founded a Western Wisconsin Pepsi-Cola bottling company in the 1940s. Although only ninety six pages, the work identifies some factors that made a franchisee successful. Signage and billboards were used extensively to promote awareness of their products. Company personnel would provide free samples of their product to the people on the street, in order

²¹ Jeffery L. Rodengen, *The Legend of Dr. Pepper / Seven-Up*, (Fort Lauderdale: Write Stuff Syndicate, 1995), 65, 95, 410.

²² Harry E. Ellis, *Dr. Pepper King of Beverages* (Dallas: Taylor Publishing Company, 1979), 207, 72.

to create demand so storekeepers would sell their product.²³ The author tells how Gillette was fiercely independent, and did not take direction from the manufacturer nor rely on the national company to sell his product.²⁴ The family aspect of the business is also shown, as Gillette ran his business for many years, and many family members worked for the company over the years²⁵. Based on this story, one gains a sense of how a franchisee achieved success.

Unfortunately, oral interviews provided the main sources, and the author did not include any references for many of the assertions. Although Hessel tries to follow a chronological format, it lacks a cohesive format and can be difficult to follow for someone who is not familiar with the soft drink business. The reader also gets the impression that the story is too glowing, and one suspects many facts were omitted. This is understandable since the work was published by the Norm Gillette family. Overall, this work makes a contribution to the historiography with hints on the operations of a soft drink franchisee and the factors that contribute to its success.

Another work about a soft drink franchised bottler is a 2006 work by Karen Wright titled *The Road to Dr Pepper, Texas*. This is a well written story about Dr. Pepper of Dublin, Texas. Reputed to be the first official franchisee of the Dr. Pepper Company in 1925, Wright traces the business from its founding in 1891 through to its current incarnation as Dublin Bottling Works. It includes detailed profiles of founder Sam Prim, his daughter Grace Lyon and longtime employee and eventual owner Billie Kloster. She also details the decision to continue to produce sugar based Dr. Pepper and

²³ Susan T. Hessel, *Pepsi in his Blood: The Norman Gillette Sr. Story* (La Crosse, Wisconsin: NP, 1996), 45.

²⁴ *Ibid*, 62.

²⁵ *Ibid*, 49.

the eventual conflict with the Dr. Pepper Company that resulted in the loss of their franchise.

Wright provides a view into the workings of a soft drink franchisee. She details the challenges the business had as Sam Prim's time was spread thin among his many business ventures and as the business struggled to survive during World War II due to the sugar rationing. Unfortunately, her work does not include a business analysis and only provides hints at what made the business so successful in the rural Texas territory. However, this may be the best source for information on life as a soft drink franchisee.

The early development of what became a prominent soft drink flavor and the role played by a group of bottlers is found in Dick Bridgforth's 2007 book *Mountain Dew: The History*. Bridgforth is an avid collector of Mountain Dew bottles and other memorabilia, and describes himself as the unofficial historian of Mountain Dew. He details how the company that owned this flavor was almost bankrupt in the late 1950s, and was rescued through investments by a group of southern franchised bottlers. With the help of these investing bottlers, the flavor was reformulated and became a regional sales success by the early years of the 1960s. The flavor was purchased by the Pepsi-Cola Company in 1964, and rose to become one of Pepsi's main brands today.

Although Bridgforth provides an interesting story and there are references to the role of a number of franchised bottlers, his work is focused on history of the Mountain Dew soft drink flavor. Without the investment of the bottlers, Mountain Dew would probably be unknown today, but the author does little to tell how business franchising worked and how the bottlers were the key player in the marketplace to make this flavor a success.

A significant gap in the historiography of the soft drink industry is why manufacturers chose franchising as their primary method of distribution. This is in spite of the fact that most of the literature is from the manufacturer's point of view. Potential explanations can be found in some secondary sources that study American business franchising from the viewpoint of the disciplines of law and economics.

Donald Hackett's 1976 article points out that the automotive and soft drink industries adopted franchising as their primary method of distribution in the 1890s.²⁶ However, Hackett does not discuss why franchising became prominent in these industries.

Another author who tries to explain the early adoption of business franchising in the automotive industry is a 1985 article from Thomas G. Marx. Using an economic analysis, he contends that franchising is more likely the higher the degree of market uncertainty that exists within an industry. He argues that this uncertainty forces interdependence between the manufacturer and the channel of distribution. The setting for Marx's article is the automotive industry. He describes how car manufacturers tried various methods for selling cars, including factory stores, mail order, department stores and sales agents. As the automobile market matured after 1920, factors such as part and service, warranty, and used car trade-ins made for a much more complex market. This complexity, combined with fluctuating sales, increased uncertainty in the market. Trading used cars made every sale unique, and this could not be coordinated by a central

²⁶ Donald W. Hackett, "The International Expansion of U. S. Franchise Systems: Status and Strategies." *Journal of International Business Studies* 7, no. 1 (Spring, 1976): 65.

manufacturer system. Only a network of independent franchised dealers, who had a vested interest in the profit, could negotiate these sales.²⁷

Marx's analysis has some parallels in the soft drink industry. In the early years of the twentieth century, there were an estimated six hundred soft drink manufacturers, mostly with local or regional distribution. Without the presence of a local company to market a new soft drink, market uncertainty was an understatement. It is questionable that any soft drink would have achieved national distribution without a distribution network. So just as with automobiles, the successful soft drink companies recognized the need and developed a franchise bottler network.

A viewpoint of franchising from a legal perspective is found in Friedrich Kessler's 1957 article on automobile dealer franchise contracts. He characterizes franchised dealers as a hybrid form in between independent retailers and branch offices of a manufacturer.²⁸ Kessler identifies franchising as the principal market channel for automobiles and contends that franchising's most spectacular development can be found in the automobile industry. But he also contends that the franchise system can also be the source of many conflicts and tensions. Car dealers were given protected sales areas, but had to use best efforts to develop their territory to the manufacturer's satisfaction. Since this criteria was subjective, and a manufacturer had the power to cancel a car dealer franchise, the manufacturer held the power in the distribution channel for automobiles.

These aspects of franchising in the car industry have some definite parallels in the soft drink industry. The power struggles in the channel of distribution are an on-going

²⁷ Thomas G. Marx, "The Development of the Franchise Distribution System in the U.S. Automobile Industry." *The Business History Review* 59, no. 3 (Autumn, 1985): 465, 472, 474.

²⁸ Friedrich Kessler, "Automobile Dealer Franchises: Vertical Integration by Contract." *The Yale Law Journal* 66, no. 8 (July, 1957): 1135, 1136, 1142, 1146.

theme in the historiography of the soft drink industry. The auto companies influenced their dealers through the threat of contract cancellation. The original Coca-Cola franchise agreement did not have a cancellation clause and it made for a much different history of those franchise relationships within the soft drink industry.

Economist Barbara Katz provided an interesting economic perspective on territory exclusivity in the soft drink industry with her 1978 article. Her article traces the history of the industry showing how exclusive territories were used to induce bottlers to invest capital and promote the products.²⁹ The drawback is that an exclusive territory contractually obligated the bottler to serve all customers in their territory, resulting in bottlers forced to sell to unprofitable accounts. Katz points to this as the one of the basic reasons for conflict in the franchise arrangement. The manufacturer made profits on all sales of their syrup. Increased sales of syrup, even if not beneficial to the bottler, contributed to the manufacturer's profits. This article concisely summarizes the economic forces at play in the soft drink industry.

An interesting viewpoint on the legal history of business franchising and its use of exclusive territories comes in a 1976 article. This article was written during the debate over the Federal Trade Commission's attempt during the 1970s to have exclusive territory franchise agreements declared illegal due to anti-trust concerns over competition. The authors argue that exclusive territories should be abandoned in the soft drink industry, and that market forces should be allowed to dictate the distribution of soft drinks.³⁰ The article admits that in the early years of the industry, territorial protection

²⁹ Barbara G. Katz, "Territorial Exclusivity in the Soft Drink Industry." *The Journal of Industrial Economics* 27, no. 1 (Sept., 1978): 85, 91.

³⁰ Louis W. Stern, Oriye Agodo, and Fuat A. Firat. "Territorial Restrictions in Distribution: A Case Analysis." *The Journal of Marketing* 40, no. 2 (Apr., 1976): 69, 75.

helped to speed market penetration. However, their position is that exclusive territories are no longer needed in a mature industry such as soft drinks.

The contribution of this article to the historiography is the identification of a fundamental reason why business franchising was used in this industry. As the authors point out, in the early stages of brand development, the incentive of exclusive territories was needed to achieve market penetration for their product.³¹ This was certainly true for the soft drink industry, where thousands of soft drink flavors were available at the turn of the century. Combine this with the fact that most manufacturers had limited financial resources, and it suggests that the business franchise approach was a natural fit for the industry in first decades of the twentieth century.

Constance L. Hays provides a good description of the economic forces that apply to soft drink business franchising. The author details how Coca-Cola's success became a model that was copied by other companies in the industry. Franchising became a low cost method for Coca-Cola to set up a nationwide distribution organization. The question that remains unanswered throughout the book is why Thomas and Whitehead, the persons who first established Coca-Cola's bottler network, chose business franchising as their method to distribute Coca-Cola.

Hays detailed some of the fundamental reasons why the franchise agreement fit, something the author describes as the prototype of the American franchise system. Although the agreement gave the partners exclusive marketing rights to virtually the entire United States, they did not have the capital necessary to market their product

³¹ Ibid, 69.

nationally.³² Instead, they sold franchises to local entrepreneurs who were willing to invest money and time in marketing and producing Coca-Cola within an exclusive geographic region, often as small as fifty square miles. Frederich Kessler argues a similar dynamic in the automobile industry, as he points out how the distribution network could be developed with very little investment by the manufacturer.³³

There are several conclusions that can be drawn from this review of the historiography of business franchising in the soft drink industry. The first is that the business story of the franchisee, the independent bottler, is not well represented. Although mentioned in anecdotes, understanding the history of independent soft drink franchisees is largely ignored. An explanation may be the sources used, as most were from industry or corporate publications. It is much more difficult to obtain information about individual bottlers, as they were usually privately owned businesses and much smaller than the manufacturers. However, the histories of soft drink bottlers are an important component to understanding business franchising.

Aligned with this is the shortage of definite answers as to why soft drink manufacturers chose franchising as their method of distribution. The historiography almost treats it as a given that bottlers were used. Economists drew up theories and models that attempted to explain why franchising worked for soft drinks and other industries. These economic theories make sense given the immaturity of the soft drink industry in 1900. It is reasonable that a soft drink syrup manufacturer would be attracted to a method, for a relatively small investment, to quickly develop a national distribution system. However, the historiography contains sketchy evidence to support this theory

³² Constance L. Hays, *The Real Thing, The Truth and Power at the Coca-Cola Company* (New York: Random House, 2004), 25.

³³ Kessler, 89.

and does little to explain the reasons why businessmen chose franchising over other methods. For example, did Thomas and Whitehead have business franchising in mind when they approached Candler for the rights to Coca-Cola, or was it accidental as they realized the amount of capital needed? Why were exclusive territories and a perpetual term provisions of these agreements? Examination of these questions would definitely enrich our understanding of business franchising.

Related to this is a pattern in the historiography to give lip service to the role of franchised bottlers in the success of the soft drink manufacturers without an examination of how this occurred. There were many manufacturers of soft drinks in the early years of the industry. As the industry matured, the companies that survived and thrived were those that put together strong franchise networks. As an example, Dr. Pepper never rose beyond the level of regional sales prior to 1960. After the Dr. Pepper Company made the move to gain strong bottlers, their revenues rose dramatically and they were able to achieve national distribution. This example is one where the end result points to the critical role of the franchised bottlers. The historiography leaves a large gap with respect to how the business franchises made the soft drink industry such a success.

A common theme that is present in almost every source is the struggle for market power within the channel of distribution. There was a very strong desire for independence on the part of the bottler. The manufacturer strove to control the distribution of their product. As stated by one author, both parties made money by selling their product, but they each made money in different ways leading to inevitable conflict.³⁴ In particular, the Coca-Cola franchise agreement, that lacked many provisions

³⁴ James M. Rubenstein, *Making and Selling Cars: Innovation and Change in the U.S. Automotive Industry* (Baltimore: John Hopkins University Press, 2001), 267.

of modern franchise agreements, became the source of much tension between Coca-Cola and its bottlers from the 1920s through to the present day. Legal histories contributed some perspectives on the evolution of contractual and legislative aspects of business franchising. The struggle for market power in franchise arrangements in the soft drink industry is probably the most complete topic of the historiography.

Overall, understanding business franchising is an important component of American business history. It was business franchising that built the soft drink business into one of the most foremost industries in the American economy. The success of soft drinks sales in the United States is unparalleled in any other country in the world, and my thesis argues that this can be attributed to franchised bottlers.

My thesis will attempt to fill some of the missing gaps by examining the American soft drink franchisee in more detail and attempt to understand what made them as well as the soft drink industry successful. The time period will range between 1900, when Coca-Cola started their initial business franchises, through to 1980, when the large soft drink manufacturers began to purchase the contracts of many of their franchisees. The next chapter of the thesis provides a brief history of business franchising in the soft drink industry. The following chapter reviews the two case study businesses. The first section examines Dr. Pepper of Dublin, Texas, reputed to be the first official franchised bottler for the Dr. Pepper Company. The second section details the story of the Minges family business of North Carolina, a soft drink franchisee since 1923. The final chapter will analyze the factors that made these two case study businesses successful, and how their role was critical to the massive growth of soft drink manufacturers and the high per capita soft drink consumption we have today.

2. A BRIEF HISTORY OF BUSINESS FRANCHISING IN THE SOFT DRINK

INDUSTRY

An unassuming glass bottle of Coca-Cola was the impetus for a business franchising empire in the American soft drink industry. The sales of this product ignited a remarkable business practice that resulted in an American love for soft drinks that far exceeded every other country in the world. Carbonated soft drinks first gained popularity in the late 1800s. Many flavors were developed, often by pharmacies, and were sold through soda fountains, where the soft drink syrup was mixed with water and carbon dioxide gas. Often these drinks were marketed with claims of medicinal benefits. For example, the brand name Pepsi-Cola is derived from the name of the enzyme pepsin which is part of the human digestive system.³⁵ Soft drinks that we know today such as Coca-Cola, Pepsi-Cola, and Dr. Pepper were all developed in the 1880s. By 1900, thousands of syrup flavors were available in the United States. Most were only sold locally, but a few enjoyed a popularity that supported regional distribution.

As soft drinks grew in popularity, entrepreneurs anticipated a demand for convenience, so that consumers could enjoy soft drinks away from a retail establishment and without the need for an expensive fountain machine. Production of their soft drink into a small container such as a glass bottle was an obvious solution. In spite of this, bottled soft drinks made up only a fraction of the overall soft drink sales at the turn of the twentieth century. Bottles were plagued with problems due to fragile glass, poor bottle

³⁵ Bob Stoddard, *How Pepsi Got Its Name and Other Pepsi-Cola Stories and Memories* (Lake Elsinore, California: Double Dot Enterprises, 2011), 22.

caps, inconsistent quality and poor carbonation retention. Over time, glass bottle technology and quality improved. The perfection of innovations such as William Painter's crown and cork bottle cap in 1892 helped to make bottled soft drinks feasible.³⁶

A major reason for the use of business franchising can be attributed to the logistics of soft drink distribution. Particularly in the early part of the twentieth century, national and regional distribution of soft drinks was a major challenge. Glass bottles of soda were heavy, the glass fragile and required special packaging and handling for delivery. Prior to the widespread use of automotive transport most goods were shipped by rail to central depots, and then distributed by horse drawn transport. It was prohibitively costly for small, startup soft drink manufacturers to distribute their bottled product on a national basis with their own employees.

To address the glass bottle problem, soft drink manufacturers shipped flavored syrup to their franchisees. The syrup was made up of soft drink flavoring or concentrate, sugar, coloring and other ingredients that made up each flavor. The syrup was then poured into large barrels for shipping. The franchisee would mix the syrup with water and carbon dioxide, and put the product into the glass bottle containers. This manufacturing process became known as bottling, and the franchisees became known as bottlers.

The franchisee would sell the bottled soft drink in their territory. In the early part of the century, a horse drawn wagon was often used. The driver would stop at retail stores, pharmacies, pool rooms, bars, and restaurants and attempt to sell his soft drinks to the proprietor. Most of the selling involved face to face, personal sales. Over time, the

³⁶ John R. Paul and Paul W. Parmalee, *Soft Drink Bottling: A History with Special Reference to Illinois* (Springfield, Illinois: Illinois State Museum Society, 1973), 14.

bottlers used creative methods to market and sell their products. This included techniques such as advertising signs or banners, pamphlets with new uses of soft drinks, and sponsorships. These sales efforts by the local franchisees resulted in much higher sales results than any small soft drink manufacturer could have achieved on their own. As well, these sales were achieved at a fraction of the cost than it would have taken any manufacturer to do on their own.³⁷

Coca-Cola was one of the first companies that attempted to sell bottled soft drinks on a large scale. Attorney Benjamin Franklin Thomas became familiar with bottled beverages during his time with the American Army in Cuba during the Spanish American War. He teamed with friend and fellow attorney Joseph Brown Whitehead and approached Coca-Cola owner Asa Candler in 1899 with the idea to market soft drinks to the consumer in bottles.³⁸ Candler was very skeptical of the entire scheme, but saw no downside. He readily signed a six hundred word agreement prepared by the partners with the admonishment to not come back to him if they went broke. This agreement gave Thomas and Whitehead a perpetual and exclusive contract to distribute bottled Coca-Cola in the United States at the price of one dollar per gallon of syrup. One author referred to the Candler agreement with Thomas and Whitehead as one of the most important documents in American business history.³⁹

Thomas and Whitehead proceeded to establish business franchises for the production and distribution of bottled Coca-Cola across the country. They searched for ambitious businesspersons, who were hard working and independent minded, and willing

³⁷ For a more detailed description of the operations of early soft drink bottling, see Paul and Parmalee, Chapter IX, "Operations of the Private Bottler," 70-74.

³⁸ Mark Pendergrast, *For God, Country and Coca-Cola* (New York: Collier Books, MacMillan Publishing Company, 1993), 73.

³⁹ J.C. Louis and Harvey Z. Yazijian, *The Cola Wars*, (New York: Everest House, 1980), 49.

to invest time and money to produce and sell Coca-Cola. Within a few years, they had sub-licensed the rights to distribute bottled Coca-Cola to entrepreneurs in virtually every urban center in the United States in exclusive territories that were often as small as fifty square miles. By 1909, there were almost four hundred Coca-Cola franchisees, commonly referred to as bottlers, across the United States.⁴⁰ Over time, their success made Coca-Cola the most popular soft drink in America. By 1950, Coca-Cola amounted to sixty-seven percent of the total soft drink sales in the United States.⁴¹

The Coca-Cola franchise arrangements turned out to be very profitable for all parties. By the time Asa Candler sold Coca-Cola to a group of investors in 1919, he was reputed to be the richest man in the South. The Coca-Cola franchised bottlers were often some of the most financially successful businesspeople in their communities.

With the success of Coca-Cola franchises, other soft drink companies quickly adopted their pattern. Pepsi-Cola, incorporated in a humble New Bern, North Carolina pharmacy in 1902, employed the same franchised bottler method, and by 1909 had over two hundred fifty bottlers in 24 states.⁴² By 1920, there were over 5,200 bottling plants in the United States.⁴³ Other soft drinks, such as Orange Crush, Hires, Royal Crown, Big Red and Dr. Pepper, enjoyed regional popularity.

A franchised bottler network was not a guarantee of business success. Prior to 1940, the manufacturers of Pepsi-Cola, Dr. Pepper and other flavors declared bankruptcy, underwent financial reorganization or disappeared entirely. These companies were

⁴⁰ Constance L. Hays, *The Real Thing, The Truth and Power at the Coca-Cola Company* (New York: Random House, 2004), 25.

⁴¹ Louis and Yzjian, 80.

⁴² Louis and Yzjian, 49, 30.

⁴³ John J. Riley, *A History of the American Soft Drink Industry, Bottled Carbonated Beverages, 1807-1957*. (New York: Arno Press, 1972), 137.

unable to cope with economic events such as sugar rationing during World War I, the collapse of sugar prices in the 1920s and the Great Depression. As soft drink manufacturers struggled, franchised bottlers often dropped their products.

The growth of the Pepsi-Cola Company after World War II was one of the most dramatic developments in the American soft drink industry. This rise was also an excellent example of a strong franchised bottler network's impact on an industry. After disastrous bankruptcies and financial reorganizations during the 1920s and the Great Depression, Pepsi-Cola was forced to rebuild its franchised bottler network almost from scratch. Company president Alfred N. Steele promoted a philosophy that bottlers were essential to Pepsi's success.⁴⁴ These efforts were combined with new packaging, aggressive pricing, national advertising, and the use of celebrity endorsements. By 1960, sales had increased over six fold, and by the 1970s, Pepsi-Cola sales equaled that of rival Coca-Cola.

Dr. Pepper followed a similar pattern. Although the flavor was developed in a Waco, Texas pharmacy in the 1880s, it never grew beyond a regional southern drink. After bankruptcy and reorganization in 1923, there were only twenty franchised bottlers for Dr. Pepper in 1930, all in the South. It was not until the 1960s, based on the efforts of Vice President Fouts Clements to recruit the best bottlers, that Dr. Pepper attained a national presence. By 1970, Dr. Pepper was the fourth largest selling soft drink in the United States.⁴⁵

Business franchising was an attractive method during the early stages of the soft drink industry, as a shortage of financial capital was common for startup manufacturers.

⁴⁴ Bob Stoddard, *Pepsi-Cola 100 Years*, (Los Angeles: General Publishing Group, 1997), 113.

⁴⁵ Jeffery L. Rodengen, *The Legend of Dr. Pepper / Seven-Up* (Ft. Lauderdale: Write Stuff Syndicate, 1995), 42, 70.

As the franchisees built production plants, acquired delivery vehicles and paid the employees, manufacturers pushed the financial burden to the bottler and could expand into new markets without substantially increasing the manufacturer's overhead.⁴⁶ The use of business franchising also reduced the business risk for the manufacturer. If a bottler or dealer failed, it was the franchisee's investment that was lost, not the manufacturer's loss. As the soft drink industry matured, the manufacturers that survived and thrived were those that were able to establish strong franchise bottler networks.

A critical component of the soft drink industry history is the franchise agreement. The unique provisions of the franchise agreement greatly influenced the development of this industry. Thomas and Whitehead used the terms of franchise agreement to recruit businesspeople to produce and distribute Coca-Cola. The agreement included a number of significant enticements, including a defined geographic territory, an exclusive license to produce and sell Coca-Cola in the territory, and a fixed cost to purchase Coca-Cola syrup. The agreement was also perpetual, with no end or renewal date and little power for the manufacturer to cancel the agreement. With the overwhelming success of Coca-Cola's franchising, their franchise agreement became the standard for other soft drink manufacturers.

The 1925 Dr. Pepper franchise agreement followed the Coca-Cola model. The first paragraph detailed the exclusive right to carbonate and bottle Dr. Pepper and to sell and distribute the product in bottles within the agreement's territory.⁴⁷ The initial paragraph also described that the exclusive franchise shall be continuous as long as the bottler complied with the terms of the agreement. The agreement fixed the purchase

⁴⁶ Bartow J. Elmore, *Citizen Coke: The Making of Coca-Cola Capitalism* (New York: W.W. Norton & Company, 2015), 36.

⁴⁷ Dr. Pepper Company Franchise Agreement, 1925, Dublin Dr. Pepper Archives, Dublin, Texas.

price for Dr. Pepper syrup concentrate, but allowed price changes based on sugar market fluctuations. The franchisee was required to maintain production standards and to not market any competing product. An addendum defined the geographic territory of the agreement.

The clauses of the franchise agreement influenced the soft drink industry to the present day. The exclusive right to sell the soft drinks in the territory provided a sales monopoly of tremendous profit potential. It also formed the basis for adoption of the Direct to Store delivery method, where the bottler's employees would deliver product directly to retail establishment, thereby controlling the presentation of their soft drinks at the retail outlets. The fixed prices for soft drink syrup facilitated a low price for a bottle of soda, and made it an affordable product for the general public. The perpetual clause set the foundation for multi-generation family businesses as soft drink franchisees.

The early franchise agreements were very generous to bottlers. Clauses such as perpetual term, exclusive territory and lack of renewal criteria would not be present in modern business franchise contracts. The generous terms can probably be attributed to the desperation of early soft drink manufacturers to entice strong businesspersons to handle their product.

The franchise agreement troubled Coca-Cola executives for decades as they saw the opportunity for the corporation to gain profits made by the bottlers. As early as the 1920s, the manufacturer and its franchised bottlers clashed over Coca-Cola syrup prices, as the original agreement had no provision for price changes. Since the agreements with the franchised Coca-Cola bottlers were perpetual, the families who owned the businesses often passed them down to succeeding generations. Candler's original perpetual

agreement did not include the power of the manufacturer to terminate the franchise. For decades, numerous Coca-Cola leaders attempted to change the agreement and gain control of their product distribution. It took until 1986, with massive expenditures to buyout the franchisees, for Coca-Cola to gain direct control over their channel of distribution.

The exclusive territory clause of the soft drink franchise agreement was the subject of significant action by the US Department of Justice in the 1970s. The scrutiny started in 1971, and in 1978 the Federal Trade Commission ruled that the territory restrictions of the franchise agreements of Coca-Cola and Pepsi-Cola violated federal antitrust laws.⁴⁸ Significant lobbying efforts were launched by both soft drink manufacturers and their franchisees. The Dr. Pepper Company president W.W. Clements issued a statement that the soft drink franchise system had been successful for seventy years, and argued that it was a promotion of efficiency and competition.⁴⁹ In 1980, the lobbying actions of the soft drink manufacturers and bottlers resulted in a government bill that protected bottlers from antitrust efforts as long as competition from another brand was present in their territory.⁵⁰ The antitrust exemption for the soft drink industry continues to the present day.

This protection was a significant departure from other industries where business franchising was used, such as the automobile industry. Similar to soft drink franchises, early automobile dealer franchise contracts provided a territory protected from sales by

⁴⁸ “FTC Orders an End to Territorial Limits Placed by Coca-Cola, PepsiCo on Bottlers,” *Wall Street Journal*, Apr. 24, 1978.

⁴⁹ “Clements Defends Franchise System,” *Clock Dial* (January / February 1971):1.

⁵⁰ “House Approves Antitrust Shield For Soda Bottlers,” *Wall Street Journal*, June 25, 1980.

other dealers or even the manufacturer.⁵¹ Between 1949 and 1952, antitrust action by the Department of Justice forced auto manufacturers to drop territory protection from their franchise agreements. If the same action had eliminated the exclusive territories for bottlers the history of the soft drink industry would have changed dramatically.

By 1980, the soft drink industry had the characteristics of a mature industry. From a proliferation of soda manufacturers in 1900, eighty percent of the American soda sales were from the manufacturers Coca-Cola, Pepsi-Cola, 7UP, Royal Crown, and Dr. Pepper.⁵² Consolidation also occurred with the franchised bottlers, as the number of soft drink production plants declined from a high of 6,662 in 1950 to 1,859 in 1980.⁵³ At the same, the total soft drink cases produced in the United States rose from 550 million cases in 1940 to almost five billion cases in 1980. Franchised soft drink bottlers drove the growth of this industry and made soft drinks a central part of American society and culture.

⁵¹ Friedrich Kessler, "Automobile Dealer Franchises: Vertical Integration by Contract," *The Yale Law Journal* 66, no. 8 (July, 1957), 1147-1148.

⁵² Federal Trade Commission, *Transformation and Continuity: The U.S. Carbonated Soft Drink Bottling Industry and Antitrust Policy Since 1980*, Bureau of Economics Staff Report, November, 1999, 34.

⁵³ *Ibid*, 36.

3. CASE STUDIES

To understand the role business franchising played in the soft drink industry, it is useful to focus on the histories of two businesses that owned soft drink franchises. Both of these businesses were relatively small, covering primarily rural areas. Despite their small sizes, both of these franchisees were able to promote their brands to be the most popular soft drinks in their territories. Each represented some of the most effective soft drink franchises in the United States. By examining the history of these businesses from their founding through 1980, we can gain considerable insight into the remarkable achievements of the business franchising model used in the soft drink industry.

Dublin Dr. Pepper

The history of the Dr. Pepper Company of Dublin, Texas, originates with its founder, Sam Houston Prim. In 1891, Prim and his wife moved from Sulphur Springs to Dublin, approximately two hundred miles to the southwest. Initially settled in the 1860s, the Dublin area was primarily populated by farmers and ranchers. By 1890, Dublin had a population of 2,025.⁵⁴ Sam Houston Prim typified the classic American business entrepreneur of the late nineteenth century. He had great optimism for the opportunities of the West, and was involved in many types of businesses over his lifetime.

Bottled beverages were an early business interest of Prim's, and he quickly established a business he called Dublin Bottling Works. A photo from 1891 shows his

⁵⁴ Texas State Historical Association, "Dublin, TX," <https://tshaonline.org/handbook/online/articles/hgd07> (accessed November 6, 2015).

company's early bottling equipment.⁵⁵ This photo also includes Sam's brother James F. Prim. James had also relocated to Dublin during this time period, presumably to work with his brother. Many bills of sale, letters and other early business documents refer to "Prim Brothers" indicating their business was operated as a partnership. In terms of their working relationship, it appears that James concentrated on running the bottling business, while Sam pursued other business opportunities.

Transportation was a challenge for the fledgling Dublin Bottling Works, as it was for most bottlers, particularly those in rural areas. Glass bottles filled with soft drinks were heavy, and required gentle handling. Prior to the availability of gasoline engines and trucks, all local deliveries of soft drinks were done by horse drawn wagons. For longer distances, train shipments were used, and wagons delivered locally. The wagons were also used to pick up the empty bottles. This is probably the main reason why small territories dominated soft drink franchises in the early years.⁵⁶ Given the weight of the fluid and glass, it was a major challenge to transport soft drinks over long distances, and many franchisee territories only covered a small number of counties. As Sam's daughter Grace Prim Lyon mentioned in a 1980 article, Dublin's distribution system at that time often depended on the local Katy Railroad.⁵⁷ This may also explain why Sam Prim did not choose a larger territory when he formalized his agreement with Dr. Pepper in 1925.

The association with the Dr. Pepper brand started in the early years. The Prims sold a number of different flavors in their first decades, including Orange Julep, Coca-Cola, Chocolate Cream, Iron Brew and others. Sam Prim first became familiar with Dr.

⁵⁵ Dublin Bottling Works Archives, Dublin, Texas.

⁵⁶ For discussion of Coca-Cola's fifty square mile franchise territories see Mark Pendergrast, *For God, Country & Coca-Cola* (New York: Basic Books, a Member of the Perseus Books Group, 2013), 286-287.

⁵⁷ "Dublin," *Clock Dial* (January-February, 1980): 7-8.

Pepper during his operation of a bookstore in Sulphur Springs.⁵⁸ Based on its popularity there, he also bottled Dr. Pepper at Dublin Bottling Works, shipping the syrup in from Waco, some ninety miles to the southeast.

The fledgling Dublin Bottling Works took a winding path to become an official franchisee for Dr. Pepper. After producing Dr. Pepper and other soft drinks for almost thirty years, on December 15, 1919, the Prim Brothers sold the equipment and assets of Dublin Bottling Works to Marshall, Braswell, Cooper and McElree.⁵⁹ Significantly, Prim did not sell the name Dublin Bottling Works.

Prim resumed operating Dublin Bottling Works within a few years. On January 29, 1925, Sam Prim put his signature on a bottling franchise agreement between the Dr. Pepper Company and Dublin Bottling Works.⁶⁰ This agreement was approved by the vice president of Dr. Pepper on March 30, 1925. The agreement detailed the rights of Prim's business to produce and sell Dr. Pepper products within its territory as an official franchisee. Based on a hand written addendum to the agreement, Prim's sales territory included roughly a forty mile radius surrounding Dublin. After this agreement, Prim's soft drink business also became known as Dr. Pepper Bottling of Dublin.

The company's letterheads and other business documents from this era reflect Sam Prim's eclectic approach to business. A 1922 letterhead of the Dublin Bottling Works described the business as a manufacturer of high grade soda water, but also includes a second line that indicates they were also a dealer in coal, grain, and mill products. Other business documents mention their sales of ice, pecans, hay and livestock

⁵⁸ Ibid, 8.

⁵⁹ Prim Brothers, Duplicate Bill of Sale to Marshall, Braswell, Cooper and McElree, December 15, 1919, Dublin Dr. Pepper Archives, Dublin, Texas.

⁶⁰ Dr. Pepper Company Bottling Franchise agreement, 1925, Dublin Dr. Pepper Archives, Dublin, Texas.

feed. A 1929 bill documents the purchase of candy from the Lone Star Candy Company, and a July 1932 letterhead contains a reference to the sale of candy.⁶¹ This diverse line of products indicates that Prim did not believe any one product line could provide sufficient sales volume for a viable business. Given that the Dublin region never achieved a large population, carrying a broad product line was a wise business move. By selling products with different demand cycles, Prim was better able to achieve steady overall revenues for his business.⁶² This approach demonstrates that that he understood the principle of business diversification.

Ironically, this business model probably contributed to limited growth in Dublin Bottling Works. Prim dabbled in industries as diverse as real estate, oil & gas, and cotton. He also seemed to be continually entangled in a series of lawsuits and litigations during the 1920s and 1930s.⁶³ This divided focus may explain why the soft drink business did not thrive in the later years of Prim's control.

Diversification also applied to his soft drink business. A 1925 letterhead lists a number of different soft drink flavors sold by Dublin Bottling Works. These include Dr. Pepper, Orange Julep, Chocolate Cream, Iron Brew and Coca-Cola.⁶⁴ Product diversification allowed his products to appeal to a wide range of consumer tastes and was one of the keys to successful soft drink franchises, as most long term businesses handled multiple product lines.

The decade of the 1930s included two events that were very strategic to the future of Dublin Dr. Pepper. First, Sam Prim's daughter Grace started to work for the soft drink

⁶¹ Dublin Dr. Pepper Archives, Dublin, Texas.

⁶² Business Dictionary, "diversification," <http://www.businessdictionary.com/definition/diversification.html> (accessed October 2, 2016).

⁶³ Karen Wright, *The Road to Dr Pepper, Texas* (Abilene, Texas: State House Press, 2006), 49-63.

⁶⁴ Dublin Dr. Pepper Archives, Dublin, Texas.

business. After high school, Grace attended Kidd Key College in Sherman, Texas, a college was known for teaching fine arts and music. As she related to a reporter years later, it was planned that she was to be a musician, but her Dad needed help in the office and once there, she never wanted to leave.⁶⁵ Based on later events, Grace learned the soft drink business well.

Grace Prim was the only child of Sam and Mary Ella Prim. In 1922, Grace married Ted Lyon, a businessman from Arkansas who had moved to Dublin as an executive of an oil exploration company. Although Ted was active in business, it appears that the soft drink business was not his major interest and most of Ted's career was spent in the cotton and oil businesses in Texas and New Mexico. Based on his performance, Ted was not the best businessman, and Sam Prim spent much time and money to rescue his son in law from his misguided decisions.⁶⁶

Grace's personal life was closely associated with her parents and her marriage had some oddities. After their marriage, Grace and Ted continued to live with her parents. The couple had no children and Ted spent much of his time away from Grace on business travels.⁶⁷ On June 20, 1944, Ted Lyon died of a heart attack. For the rest of her life, Grace lived in the house where she grew up and remained her parents' caregiver.

The second key event was the hiring of a local teenager named William Kloster, whom everyone called Billie. Sam Prim hired him in 1933 as a fourteen-year-old to work as a bottle sorter at fourteen cents an hour.⁶⁸ Except for a stint in the army during World War II, Kloster was employed continuously by Dublin Dr. Pepper for the rest of his life.

⁶⁵ "Dublin's Dr. Pepper Plant Keeping Step with the Times," *Stephenville Daily Empire*, April 8, 1951.

⁶⁶ Wright, 58-60.

⁶⁷ Ibid, 64-66.

⁶⁸ "Bottling plant still a Pepper," *Plainfield Daily Herald*, September 21, 1986.

As explained later in the company's history, Billie turned into a remarkable promoter of Dr. Pepper, so much so that one author referred to him as "Mr. Dr. Pepper."⁶⁹ Grace and Billie would work together in future years to make Dublin Dr. Pepper a tremendous success.

The first half of the decade of the 1940s proved challenging for Dublin Dr. Pepper. First, the health of Sam Prim had deteriorated. Based on the document signatures, Grace was looking after much of the administration, so it appears that Sam was no longer able to manage the day-to-day affairs. A second factor was Billie Kloster's enlistment in the US Army in 1944. It appears that Billie had quickly gained the confidence of Sam Prim, and had become a key person in the production line. In a small organization, the loss of a key person can cause a major disruption. From the tone of her letters to Billie, it is evident that Grace was anxious for his return from the army. Family lore has it that Sam Prim willed himself to stay alive until Billie came back to Dublin.⁷⁰ One of Sam's letters to Billie related how they longed for his return and hoped it won't be too long.⁷¹

By far the largest challenge for the business during the war years was sugar rationing. Instituted in the spring of 1942, sugar was deemed essential to the war effort. The Philippines were a major source for sugar, and after the Japanese occupation, sugar supply shortages caused the federal government to ration it to both consumers and

⁶⁹ Karen Wright, "Bill Kloster, Mr. Dr Pepper," *The Dublin Citizen*, Sept. 29, 1999.

⁷⁰ Paul Long, "Old bottling plant is still a Pepper," *Fort Worth Star Telegram*, July 13, 1986.

⁷¹ Sam Prim to Billie Kloster, October 26, 1945, Dublin Dr. Pepper Archives, Dublin, Texas.

businesses. This rationing lasted until 1947.⁷² Since soft drinks require large amounts of sugar, rationing was very significant to their production.

For soft drink producers, the allocation of sugar was based on a percentage of the prior years' usage. This favored the larger, established bottlers, and it came as no surprise that Coca-Cola executives helped the administration draft the guidelines. Since the early years of the twentieth century, Coca-Cola had been the dominant soft drink company, and their bottlers typically possessed a very large market share in their territories. During the war, Coca-Cola chief executive Robert Woodruff committed to supply every American in uniform with Coca-Cola at five cents a bottle wherever they were.⁷³ One can surmise that this was why the sugar rationing system favored their bottlers.

For Dublin Dr. Pepper, the sugar ration became the limit to the amount of product that could be made. Sugar is a major ingredient for soft drinks, and it was the only sweetener in use at that time. As each year went by, the administration decreased the amount of sugar available, so Dublin Dr. Pepper had less product to sell. For example, a 1944 notice from the Office of Price Administration detailed that Dr. Pepper Bottling Co. of Dublin was assigned a fourth-quarter quota of eighty percent of the sugar purchases in the same period of 1941.⁷⁴ In a letter to Billie in June 1945, Grace relates how they only received sixty five percent of the previous year's allocation and had heard rumors that the allocation might be cut to fifty percent.⁷⁵ In addition, there was no guarantee that the

⁷² "Sugar Is Plentiful as End of Control Nears; Hoarding Ill-Advised," *Wall Street Journal*, October 30, 1947.

⁷³ Bartow J. Elmore, *Citizen Coke: The Making Coca-Cola Capitalism* (New York: W. W. Norton & Company, Inc., 2015), Kindle edition, Location 2325.

⁷⁴ US Office of Price Administration, Special Application Rationed Food Commodities, Form R-315, *Sugar Quota for Fourth Quarter, Oct. Nov. Dec. 1944*.

⁷⁵ Grace Lyon to Billie Kloster, June 15, 1945, Dublin Dr. Pepper Archives, Dublin, Texas.

sugar supply would be available to fill the quota, as sugar suppliers were often unable to procure the raw sugar needed for production. The situation was so bad that at times Dublin's trucks delivered only candy products, as this was all they had to sell.

Sam Prim died on September 17, 1946 at the age of eighty-two. He had not been in good health for some time. The transfer in ownership of the Dublin Bottling Works from Sam Prim to his wife and daughter had actually taken place ten years earlier, in June, 1936. The ownership was split so that three quarters of all the assets were given to Sam's wife Mary, while the remaining one-quarter was transferred to his daughter Grace.⁷⁶

Sam's death may have clouded the future of the Dublin Dr. Pepper business. Given the societal attitudes of the era, with no male heirs to take over the business, it would not have been a surprise for the bottling operation to be sold in the months following Sam's death. Female owner managers were very rare in the soft drink business. In 1948, Grace was the only woman to run a Dr. Pepper plant.⁷⁷ In fact, Grace mentioned how her father had told her that she could sell the business, if she wanted to, but she related in a 1951 article that she could never be happy in any other work, and it was her aim and purpose to carry on the business.⁷⁸ Grace would go on to manage the soft drink franchise for the next thirty years, and throughout those years was one of the very few women in this position in the industry.⁷⁹

Grace seemed to have a natural talent for business and excelled as a manager. In her dealings with employees, she had a no nonsense approach. One employee felt that

⁷⁶ S. H. Prim to M. Ella Prim and Grace Lyon, June 15, 1936, Dublin Dr. Pepper Archives, Dublin, Texas.

⁷⁷ "Dublin," *Clock Dial* (January-February, 1980): 8.

⁷⁸ "Dublin's Dr. Pepper Plant Keeping Step with the Times," *Stephenville Daily Empire*, April 8, 1951.

⁷⁹ "Dublin," *Clock Dial* (January-February, 1980): 8.

“everyone loved Grace, but she ran the plant with an iron fist.”⁸⁰ Jan Nelson, service manager for over sixteen years, said everyone snapped to attention when they heard the boss lady’s high heels clicking across the plant’s concrete floor.⁸¹ These anecdotes are evidence that Grace was firmly in charge and did not allow gender issues to get in the way of her business goals.

It did not take long after taking over the business for Grace’s management skills and determination to be tested in a territory dispute. A couple of neighboring Dr. Pepper bottlers were selling to customers located at the edge of Dublin’s territory. Exclusivity is one of the pillars of the soft drink franchise agreement, in that no other company can sell a franchisee’s product into their territory. Given the societal attitudes of the day, it is probable that the motives behind these actions were to coerce Grace into selling the business. If she wanted to sell, the logical buyers would have been neighboring bottlers, and they may have wanted to nudge her in that direction.

If that truly was their motive, they greatly underestimated Grace Lyon. The first bottler that made a move was C.C. Lockwood, the owner of the Dr. Pepper Bottling Company of Brownwood, Texas. A letter from the Franchise Department of the Dr. Pepper Company dated May 21, 1947 hints at some confusion over the definition of the Dublin territory and the town of Ireland, Texas, which was close to the Hamilton County line.⁸² The tone of the letters changed over the summer of 1947. In August, Grace relates that C. C. Lockwood’s attorney met with her in July, without any resolution, and

⁸⁰ Karen Wright, *The Road to Dr Pepper, Texas* (Abilene, Texas: State House Press, 2006), 115.

⁸¹ *Ibid.*, 116.

⁸² W.M. Randall of Dr. Pepper Company to Grace Lyon, May 21, 1947, Dublin Dr. Pepper Archives, Dublin, Texas.

she asked the Dr. Pepper Company to get this situation corrected.⁸³ She was adamant that any customers in Hamilton County were part of her territory, and she intended to proceed in that manner. Her reply letter to Lockwood's lawyer was quite blunt, stating that she felt any meeting was a waste of time, as she had no intention of giving up any part of her territory.⁸⁴

By August 14, the matter appeared to be resolved. C.C. Lockwood's letter to Grace indicates their agreement that Dublin was to take over servicing customers in the two towns under dispute, with a request that two weeks' notice be provided so that Lockwood's drivers could pick up their bottles.⁸⁵ However, this changeover did not go as planned. Grace wrote a scathing letter to the Dr. Pepper Company on September 20 detailing how Lockwood was not following through on their commitment, and demanding that the company take action.⁸⁶ The Dr. Pepper Company responded promptly, promising to give the matter their immediate attention. Grace successfully got the parent company to intervene, since her franchise serviced the area under dispute for many years.

A similar situation arose in 1949. Dublin also held a franchise to sell Delaware Punch products within the Dublin region. A neighboring bottler, the Milwaukee Bottling Company of Fort Worth, had a distributor based in the town of Cleburne. He was delivering Delaware Punch product to customers in Iredell which was clearly part of the Dublin territory. A 1949 letter from the manufacturer copied to Grace summarizes the

⁸³ Grace Lyon to W.M. Randall of Dr. Pepper Company, August 8, 1947, Dublin Dr. Pepper Archives, Dublin, Texas.

⁸⁴ Grace Lyon to McGillivray Muse, August 12, 1947, Dublin Dr. Pepper Archives, Dublin, Texas.

⁸⁵ C.C. Lockwood of Dr. Pepper Bottling of Brownwood, Texas to Grace Lyon, August 14, 1947, Dublin Dr. Pepper Archives, Dublin, Texas.

⁸⁶ Grace Lyon to W. H. Randall of Dr. Pepper Company, September 20, 1947, Dublin Dr. Pepper Archives, Dublin, Texas.

territory incursions and instructs the Milwaukee Bottling Company to have their distributor stop the deliveries to Iredell.⁸⁷ From the tone of the letter, it is evident that Grace was again adamant in her demands that her territory rights be respected.

These examples show that Grace had considerable fortitude and was willing to stand up adamantly for her business' rights. One of the letters refers to the towns of Indian Gap and Pottsville which, even though within Dublin's territory in Hamilton County, had been serviced by Lockwood for a number of years. It is unknown whether her father was aware of this when he was alive or merely unwilling to dispute the incursion in their territory. Whatever the reason, it is evident that Grace was not going to stand for it. She was a strong willed business person during a time when female headed businesses were very rare. This strong will and determination would serve Dublin Dr. Pepper well in the years to come.

The 1950s were a decade of transition and change for the American soft drink industry. Coca-Cola emerged from World War II as the dominant soft drink in the United States, with a multitude of other smaller flavors vying for the remainder of the consumer market. Unfortunately for Coca-Cola, complacency with their dominance opened growth opportunities for their competitors. It was during this decade that Pepsi-Cola and Dr. Pepper both made strategic changes that set the foundation for their growth into massive companies in the years to come. A critical activity focused on their franchised bottlers, including termination of poorly performing franchisees, recruiting new franchisees and enhancing their existing franchisees. For bottlers of Dr. Pepper, the

⁸⁷ Smoke Ballew and Associates Inc. to C. L. Barnhart of Milwaukee Bottling Company, Fort Worth, Texas, May 3, 1949, Dublin Dr. Pepper Archives, Dublin, Texas.

1950s brought the first changes that would transform the company from a regional flavor to a nationally sold soft drink.

As they moved into the decade of the 1950s, Dublin Dr. Pepper decided to expand and modernize its production facility. Front page news when it opened in April, 1951, this expansion featured a facelift to the existing facility and a bottle production line with a capacity of up to 160 cases of twenty-four bottles per hour.⁸⁸ A 1955 article called their production machinery the most modern available.⁸⁹ In addition, the line was now capable of producing multiple-sized bottles.

The new production line was a strategic move for the business. Sixty years after it was first established, the new line represented an investment that was critical to the long term growth and survival of the soft drink franchise. After World War II, American society enjoyed increasing affluence. As soft drink franchisees wanted to sell more product, an expanded production capacity was instrumental to take advantage of this rise in US discretionary income. As well, the capability to produce multiple-sized bottles was strategic. Over the next twenty years, soft drinks came to be sold in a number of different sized glass bottles.

This decade also featured the start of Dublin Dr. Pepper's rise as a top achiever in national sales results. A sales measurement used by many soft drink manufacturers to assess the performance of a territory or franchisee was based on the sales of soft drinks relative to the territory's population. The total sales are converted to bottle size, such as eight fluid ounce equivalents, and this total is divided by the total population in a territory, typically based on census results. The resulting number is the average number

⁸⁸ "Dublin's Dr. Pepper Plant Keeping Step with the Times," *Stephenville Daily Empire*, April 8, 1951.

⁸⁹ "Dublin Plant Reviews 64-year Progress," *Clock Dial* (September – October, 1955).

of eight ounce bottles of soft drink consumed per person, which the soft drink industry typically refers to as the per capita number. This is a useful measurement, as it provides a method to compare sales in different franchise territories where there may be wide differences in population.

The Dr. Pepper Company used the per capita number to assess the performance of each bottler. Starting in the 1940s, they published a comparison of the per capita performance across their franchisees. Based on this measurement, it is evident Dublin Dr. Pepper thrived under the management of Grace Lyon and Billie Kloster.

Below is a summary of the per capita results for the 1950s.

Table 1: Dublin Dr. Pepper 1950s Per Capita Rankings

Year	Texas Rank	Company Rank
1950	20	25
1951	19	26
1952	28	40
1953	37	No Rank
1954	32	No Rank
1955	35	No Rank
1956	30	No Rank
1957	27	37
1958	24	33
1959	22	31

Source: Data adapted from *Clock Dial* publication, 1951 through 1960.

The Texas Rank column details how Dublin compared to other Texas Dr. Pepper bottlers, while the Company Rank column is their performance relative to all other franchised Dr. Pepper bottlers. Although the population in Dublin’s territory was relatively small, they were consistently near or within the top thirty Dr. Pepper bottlers in Texas. And in the later years of the decade, Dublin’s performance relative to other bottlers improved, rising in comparison to other Texas Dr. Pepper bottlers as well as those around the US.

It was also during the post-war period that Dublin broadened its product line to include a number of other brands. Dublin was franchised for Sun Crest and NuGrape in 1948, and expanded the territory to include other towns in Hamilton County in 1956.⁹⁰ Other brands added to their line included Triple XXX in 1940, 2-Way in 1955, and Frostie Root Beer in 1959.⁹¹ A 1956 newspaper advertisement promoted their introduction of Double Cola.⁹²

This decade brought the first expansion in the packaging used for bottled soft drinks. For many years, soft drinks were sold in small bottles, typically in a six and one half fluid ounce size. Driven by a desire to expand consumer preferences, larger sized bottles were introduced. A 1956 photo shows Grace & Billie at a kickoff meeting with a twelve fluid ounce bottle, known as “king size.”⁹³

A number of trends can be interpreted from these actions. Although Dr. Pepper was Dublin’s main line, it was evident that other products could fill consumer demands that were not addressed by Dr. Pepper. For example, Sun Crest was known for its orange soda, NuGrape for its grape soda and Frostie for its root beer. Dublin’s trucks were making stops to deliver Dr. Pepper to their customers. It did not add much to the cost to deliver some other brands at the same time.

This expanded product line was the start of increasing complexity for the bottlers. Production runs had to be planned for the different products, as it was no longer sufficient to just do large runs to produce Dr. Pepper. Purchasing grew more complex, as

⁹⁰ National NuGrape Company to Dr. Pepper Bottling Company, Dublin, TX, November 20, 1956, Dublin Dr. Pepper Archives, Dublin, Texas.

⁹¹ “Products of Dublin Dr Pepper”, Dublin Bottling Works Museum, 105 E. Elm Street, Dublin Texas, visited September 21, 2015.

⁹² Dr. Pepper Bottling Company, “Double Cola is Here,” advertisement, *The Dublin Progress*, September 28, 1956.

⁹³ “King Size in Dublin,” *Clock Dial* (May-June 1956): 9.

production had to be coordinated with purchases from multiple suppliers of soft drink concentrate, bottles and caps. And delivery truck loads had to be planned out as drivers had to estimate how much of each brand they could sell in a day. These complexities of production and distribution would continue to increase in future years.

It was during this decade that the Dr. Pepper Company started to modify their original franchise agreement. The agreement, which superseded the original 1925 agreement negotiated with Sam Prim, was signed by Grace Lyon in 1959. The new agreement retained the basic principles of the original agreement, particularly territory exclusivity. However, it granted major new powers to the Dr. Pepper Company. These included the right to change prices for soft drink concentrate, to charge for cooperative advertising, and to designate the bottler as an independent contractor. It also granted broad powers to Dr. Pepper Company for termination of the agreement. This agreement even changed the title to Bottler's License Agreement.⁹⁴

There were also incentives for bottlers to switch to the new licensing arrangement. New products were on the horizon. This included fountain syrup, sold through special vending machines, which became popular in restaurants, bars and cafeterias. It also included soft drinks in cans, which was greatly desired by the bottler to avoid the expense and work involved with glass bottles. Bottlers also knew of new products that Dr. Pepper was developing that had excellent market potential. An example was the low calorie version of Dr. Pepper, targeted primarily at women who wanted to control their figures.

⁹⁴ Dr. Pepper Company, Bottler's License Agreement, August 27, 1959, Dublin Dr. Pepper Archives, Dublin, Texas.

What is evident from this new agreement is a gradual shift in the relative market power of each party. In 1925, Dr. Pepper was anxious to expand and needed franchisees to accomplish this growth. The Dr. Pepper flavor had some popularity, but nothing overwhelming. There were many other soft drink flavors for businessmen to choose from so the market advantage favored the local soft drink bottler. These businessmen had knowledge of the success of the Coca-Cola franchise system, and they demanded the same or better terms from Dr. Pepper. This market power would gradually change over time, as the surviving soft drink manufacturers grew, and their products became more popular, primarily due to the efforts of their franchisees. This shift allowed the Dr. Pepper Company to gain more powers in the franchise arrangement. It is ironic that the manufacturer gained an advantage because of the success of franchised bottlers.

The 1950s also featured an expansion in the use of advertising by soft drink franchises. Prior to this decade, advertising had been primarily restricted to print media such newspapers and magazines. As the popularity of television grew, soft drink companies came to view this media as a good method to promote their products. For small franchisees such as Dublin, it was very costly to produce television ads on their own. Soft drink manufacturers filled this need through a program of cooperative advertising. Bottlers were assessed a charge based on their concentrate purchases from the manufacturer. For example, Dublin Dr. Pepper paid one eighth of a cent extra on each gallon of syrup concentrate purchased in 1959.⁹⁵ These funds were used to produce professional commercials and advertisements that their bottlers could use. In the years to

⁹⁵ Advertising Department of Dr. Pepper Company to Grace Lyon, August 27, 1959, Dublin Dr. Pepper Archives, Dublin, Texas.

come, soft drink companies marketed their products using many memorable television commercials.

It was during this decade that Dublin Dr. Pepper demonstrated some very creative marketing techniques. One of these was the Dublin plant tour. Groups came to the soft drink business, toured the production facility and often sampled Dr. Pepper. As Grace Lyon told a reporter in 1951, “we are always happy to have visitors at our place and extend to one and all a cordial invitation to come in at any time.”⁹⁶ With school groups, plant tours events helped to introduce the Dr. Pepper and business to visitors. And as with many products, when we develop a taste for a product in our childhood, we tend to purchase it as adults. These tours went a long way to cement Dr. Pepper as the preferred soft drink in the Dublin territory.

The marketing to schools used the same creative marketing strategies. For many years, Dublin Dr. Pepper handled the purchase of paper book covers for the local school districts’ textbooks. For example, in 1957 Dublin purchased 6,000 book covers for the Comanche Public Schools.⁹⁷ In 1959, Dublin Dr. Pepper purchased an eight-page program for the football team. These techniques made the Dr. Pepper name visible to students every school-day. Free samples of samples Dr. Pepper were present at many school functions. Again, by influencing consumption at a young age, Dublin Dr. Pepper was able to build a consumer base for the future.

These marketing efforts were significant given the trend of American society at the time. The post-World War II baby boom was ramping up during the 1950s. Over the next two decades, the teen and young person age-group became the most desirable

⁹⁶ “Dublin’s Dr. Pepper Plant Keeping Step with the Times,” *Stephenville Daily Empire*, April 8, 1951.

⁹⁷ Grace Lyon to Neil Kinnard of the A.T. Walraven Book Cover Company, December 16, 1957, Dublin Dr. Pepper Archives, Dublin, Texas.

market segment for soft drink companies. Slogans such as “Come alive, you’re in the Pepsi Generation,” “Things go better with Coca-Cola,” and “I’m a Pepper” were some years in the future, but they indicated where soft drink sales growth was expected. Dublin Dr. Pepper’s efforts in marketing to schools set a foundation for future sales in their territory.

The decade of the 1960s was the prime of the business reign of Grace Lyon and Billie Kloster. Many factors came together for the business during this time and this was evident in the per capita sales within the Dublin territory. The per capita rankings continued to improve for Dublin Dr. Pepper through the decade. Below is a table with the rankings through the decade.

Table 2: Dublin Dr. Pepper 1960s Per Capita Rankings

Year	Texas Rank	Company Rank
1960	14	24
1961	9	17
1962	8	14
1963	7	12
1964	7	13
1965	14	18
1966	12	14
1967	15	18
1968	21	26
1969	21	27

Source: Data adapted from *Clock Dial* publication, 1961 through 1970.

The business ranked consistently in the top thirty for the overall company, and had a number of years where Dublin ranked within the top ten Dr. Pepper bottlers in the state of Texas. These years were very successful for Dublin Dr. Pepper.

This decade featured a major award for Dublin Dr. Pepper. For the year of 1967, Dublin received the Dr. Pepper Gold Per Capita award. As described by Dr. Pepper

Company executive vice president W.W. Clements, this was the highest per capita award that the soft drink manufacturer offered.⁹⁸ It is also interesting to note that based on the photos of the Dr. Pepper per capita award winners for the year, only two other women were shown. This reflects how rare Grace was as a woman executive in the soft drink industry.

The decade also featured several milestones for the business. In January 1960, Dublin received an award for fifty years of purchasing from Crown Cork and Seal Company, the main supplier of bottle caps to soft drink bottlers. A newspaper article in 1967 detailed the presentation of a large grandfather clock to Grace from the Dr. Pepper Company to commemorate seventy five years as a bottler.⁹⁹ R. L. Stone, vice president of sales for the Dr. Pepper Company, commented on the loyalty to Dr. Pepper and the sound business judgment vital to business success. The longevity of Dublin Dr. Pepper would continue to be recognized in years to come.

Much of Dublin's business success can be attributed to sales and marketing efforts. A continued focus was marketing to young people through schools and colleges. A 1961 article details sales activities that targeted local high schools.¹⁰⁰ The goal was at least one Dr. Pepper vending machine in every high school in the Dublin franchise territory. These machines were coin operated, and Dublin's drivers would refill the product in the machines during their weekly stops. The campaign was successful, with all but one high school accepting Dublin's vendors. The article also tells of sampled product given at open house events at the high schools and a free bottle to every student

⁹⁸ W. W. Clements of Dr. Pepper Company to Grace Lyon, April 5, 1968, Dublin Dr. Pepper Archives, Dublin, Texas.

⁹⁹ "76-Year-Old Dublin Bottling Firm Honored," *Stephenville Empire-Tribune*, December 22, 1967.

¹⁰⁰ "Dublin Dr. Pepper Observes 70th Anniversary," *Clock Dial* (November-December, 1961): 22.

who received a Salk polio shot. As well, fifteen vending machines were reconditioned and repainted over the summer for placement at one of the local colleges. As a continuation of their marketing efforts started in the 1950s, Dr. Pepper was well known to the younger generation.

The same article tells of Dublin's activities related to special events. Special events are public events or gatherings that are sponsored by a local group or association. The bottler often had a booth or display at the event where Dr. Pepper was sold and sampled. During the summer of 1961, Dublin Dr. Pepper was present at the DeLeon County Peach and Mellon Show, the Comanche Rodeo, two large homecoming events and a county reunion.¹⁰¹ These kinds of events were excellent methods to sell and showcase Dr. Pepper.

The decade of the 1970s was challenging for Dublin Dr. Pepper. The first change pertained to Grace Lyon. She was now in her seventies and appeared to conduct less of the day-to-day management of the business. The management of the company was being handled more and more by Billie Kloster. In 1972, Billie was promoted to general manager.¹⁰² By later in the decade, his wife Iona performed much of the office work that had been previously handled by Grace.

A second change was the decision to not follow a soft drink industry trend regarding the use of sugar. The 1970s were a decade plagued by price inflation. Sugar was a major cost component of soft drinks, and there were major price spikes during this time. To compound the problem, most sugar supplies were imported, so there was little control the domestic industry could exert. In response to this situation, most soft drink

¹⁰¹ Ibid.

¹⁰² Bill Grimes, "Our Businesses," *The Dublin Progress*, March 13, 1980.

bottlers changed their soft drink mixtures to use corn syrup as the sweetener for their drinks. The main reason was that the cost of corn syrup was less than sugar.¹⁰³ In addition, the syrup was derived primarily from corn grown in the US, so the prices were less susceptible to the uncertainties in sugar supplies from foreign countries.

Dublin Dr. Pepper made the decision to retain the original formula and continued to produce Dr. Pepper using cane sugar as the sweetener. Although soft drink manufacturers claimed there was no difference in the taste, Billie Kloster felt that cane sugar sweetened Dr. Pepper was superior. He remarked how all other bottlers used the same flavoring, but sugar makes the difference in taste.¹⁰⁴

This was an intriguing decision given the trends of the soft drink industry in the 1960s and 1970s. In spite of the increasing overall price inflation, soft drink prices to the consumer were dropping dramatically. Much of this was caused by the “cola wars” between Coca-Cola and Pepsi-Cola as they tried to increase their market share. At the same time as per-unit revenues were dropping, business costs were increasing. Some of this was due to price inflation, but other factors also came into play. During this decade, soft drinks came to be sold in a variety of new packages. Packages such as cans, one and two-liter plastic bottles, non-returnable glass bottles and cardboard tetra-pack containers all gained increased popularity. The capital cost of new equipment to produce these new packages was substantial.¹⁰⁵

¹⁰³ John Koten and Gay Sands Miller, “Coca-Cola Decides to Use Corn Sweetener in Coke, Sending Sugar Prices Tumbling,” *Wall Street Journal*, January 29, 1980.

¹⁰⁴ “Tradition,” *The Hood County News*, March 1, 1989.

¹⁰⁵ Edwin Adelman and Charles Ardolini, “Productivity in the soft drinks industry,” *Monthly Labor Review* 93, no. 12 (December, 1970), 29.

The trend toward more soft drink flavors accelerated in the 1970s. For Dublin Dr. Pepper it included the addition of the franchise to sell Big Red products.¹⁰⁶ Big Red was another Texas brand, invented in Waco in 1937. It is best known for its red cream soda. This trend of handling multiple flavors was started by the bottlers years before, but it took until the 1970s for the large soft drink manufacturers to recognize an opportunity for increased sales when they broadened their product lines. The increase in both packaging and flavors dramatically increased the breadth and depth of the product lines and consequently the number of products a bottler had to produce and distribute.

For the small bottler such as Dublin Dr. Pepper, the associated financial pressures with all this expansion became increasingly burdensome. As with most businesses, there are fixed and variable costs to conduct business. Variable costs will vary according to different levels of sales and production. But fixed costs, also known as overhead costs, are set, and do not vary irrespective of how much product is sold or produced. Examples of fixed costs for a soft drink business include the cost of buildings, production equipment, delivery trucks, and salaries for management and office personnel. Irrespective of the sales, the cost of a delivery truck is the same. As margins decline, the business must sell more product so that the total margin can cover the business' fixed costs.¹⁰⁷

These financial pressures began to change the profile of soft drink franchisees during the 1960s and 1970s. For many small bottlers, they were faced with the decision to either grow or sell their franchise. Many small bottlers sold or merged their franchises

¹⁰⁶ The Perfection Company, Ltd. to Billie Kloster, May 7, 1971, Dublin Dr. Pepper Archives, Dublin, Texas.

¹⁰⁷ Donald L. Raun, "The Problem of Fixed Charges," *The Accounting Review* 26, no. 3 (July, 1951): 339.

with other bottlers.¹⁰⁸ Other franchisees used loans or outside investors to buy franchises and expand their territory. The number of individual US soft drink franchisees experienced a major decline in the years to come.¹⁰⁹

On the sales side, Dublin Dr. Pepper continued to maintain their excellent per capita performance. Below is a table of their per capita ranking during the 1970s.

Table 3: Dublin Dr. Pepper 1970s Per Capita Rankings

Year	Texas Rank	Company Rank
1970	16	22
1971	16	21
1972	20	25
1973	15	19
1974	15	17
1975	15	18
1976	17	22
1977	21	27
1978	20	25
1979	17	21

Source: Data adapted from *Clock Dial* publication, 1971 through 1980.

In spite of the turbulence of the decade, they were able to consistently stay in the top thirty performers for Dr. Pepper franchises.

The decade also included recognition for Dublin’s longevity and achievements. In 1977, the president of the Dr. Pepper Company congratulated Grace on placing within the top 40 per capita Dr. Pepper bottlers.¹¹⁰ In 1981, the same author commented that Dublin’s jump to sixteenth place was quite remarkable.¹¹¹

¹⁰⁸ Edwin Adelman and Charles Ardolini, 29.

¹⁰⁹ Katz, 86-87.

¹¹⁰ W. W. Clements of Dr. Pepper Company to Grace Lyon, April 7, 1977, Dublin Dr. Pepper Archives, Dublin, Texas.

¹¹¹ W. W. Clements of Dr. Pepper Company to Grace Lyon, May 11, 1981, Dublin Dr. Pepper Archives, Dublin, Texas.

On the production side, it is evident Dublin Dr. Pepper postponed any equipment upgrades to handle the new packaging. Still based on the 1951 installation, the production line limited what could be produced at the Dublin facility. Instead, they contracted the production of packages such as cans to the neighboring Dr. Pepper bottler in Temple, TX.¹¹² This relieved them of the overhead cost to revamp their production line but probably reduced the margin they could achieve with sales.

Decisions to revamp office procedures or to upgrade to new office technology were also postponed. A couple of examples illustrate this. Many bottlers moved to a method of sales known as “presales” where a salesman met with customers and obtained their orders for later delivery. As the number of products ballooned, it became increasingly difficult for the driver to know what product to load onto his truck to meet his customers’ requirements. The presales method allowed the bottler to load delivery trucks with only the products needed to fill customer orders. Instead, Dublin continued to use driver salesmen, where a driver went out on his route each day, stopping at customers and selling them the product they wanted at that time. If the product was not on the truck, it was not sold. Dublin also did not adopt newer technology during the 1970s. The introduction of lower cost computers during the latter part of the decade made it feasible for businesses to automate record keeping. Manual ledgers were still the norm in Dublin at this time.

Although these decisions went contrary to what other soft drink franchisees had implemented at the time, they worked for Dublin Dr. Pepper. The business survived and continued to be successful. Looking back over the time Grace and Billie ran the

¹¹² “Tradition,” *The Hood County News*, March 1, 1989.

business, their territory's per capita consumption rose from twenty five bottles in the 1940s to two hundred bottles by 1980.¹¹³

¹¹³ "Dublin," *Clock Dial* (January-February, 1980): 8.

Minges Bottling

Another excellent example of a successful American soft drink franchisee is the Minges family of North Carolina. The history of their business starts with two brothers, Miles Otho (M.O.) Minges, and Luther Lester (L.L.) Minges. In 1923, they moved to Greenville, North Carolina, and established the Orange Crush Bottling Company. Known at the time as Wards Crush, the brothers started out selling the flavors of orange, lemon and lime soft drinks.

The brothers used a \$13,000 investment to build a 1,000 square foot soft drink plant in the city of Greenville.¹¹⁴ At the time of its grand opening on May 10, 1923, the company boasted in a newspaper advertisement of being one of the finest soft drink bottling plants in the state.¹¹⁵ Their plant was the fifth soft drink bottling plant in the city. This was remarkable given that the city had a population of only 5,772 in 1920.¹¹⁶

Although it was a popular business at the time, it is curious that the Minges brothers opened a soft drink business. Neither brother had any experience in the business. M.O. Minges was age twenty-nine while L.L. Minges was forty years old at the time of the move. It is possible they were caught up in the business world euphoria of that time for the soft drink business. The opening of their soft drink business matched the peak time period for number of soft drink franchisees in the United States.¹¹⁷

In spite of the Minges brothers inexperience, their soft drink business grew and they expanded their product line. The business added flavors NuGrape and Ski Hi in

¹¹⁴ “Greenville Will Soon Have Fifth Bottling Plant,” *Greenville Daily Reflector*, April 2, 1923.

¹¹⁵ Advertisement, *Greenville Daily Reflector*, May 9, 1923.

¹¹⁶ U.S. Department of Commerce, Bureau of the Census. *Fourteenth Census of the United States Taken in the Year 1920*, “Population 1920 Number and Distribution of Inhabitants,” 267. <https://www.census.gov/prod/www/decennial.html> (accessed November 2, 2016).

¹¹⁷ John J. Riley, *A History of the American Soft Drink Industry, Bottled Carbonated Beverages, 1807-1957* (New York: Arno Press, 1972), 137.

1926, Coca Crush in 1927, and Jumbo Cola in 1934.¹¹⁸ During the 1930s, the Minges further diversified their product line, adding Pabst and Schmidt's beers, as well as ginger ale soft drinks. The business grew as a diversified beverage business, producing and selling a variety of soft drink and beer products.

The brothers' business also expanded geographically into neighboring towns from Greenville. Late in the 1920s, the brothers dissolved their partnership and each focused on individual territories.¹¹⁹ M.O. Minges worked the soft drink business from Greenville, while L.L. Minges established a soft drink business in Rocky Mount, North Carolina. This pattern of each family member running a separate business repeated itself through subsequent generations.

The most strategic business move for the family business took place in 1935, with the acquisition of the franchise to sell Pepsi-Cola in Eastern North Carolina counties. In 1935, this was an uncertain venture for the Minges family. The Pepsi-Cola company had had a checkered history. After becoming a popular regional soft drink in the south during the early years of the twentieth century, it went through three bankruptcies and reorganizations in the years following the end of World War I. Bottlers were understandably leery about Pepsi-Cola, and local soft drink bottlers had many other flavors from which to choose.

The latest incarnation of Pepsi-Cola was engineered by New York City businessman Charles G. Guth. In 1931, Guth and a partner acquired the Pepsi-Cola trademark, business and good will from a bankruptcy court for \$12,000, forming a

¹¹⁸ Minges Bottling Group, Inc., "History," <http://www.mbgpepsi.com/about-us/history/> (accessed March 15, 2016).

¹¹⁹ East Carolina University, Minges Collection, 1899-2011, "Description," <https://digital.lib.ecu.edu/special/ead/findingaids/1136/> (accessed March 15, 2016).

Delaware corporation named Pepsi-Cola Company.¹²⁰ Guth initially acquired the company to supply soft drinks to the chain of grocery stores that he owned. After some turbulent startup years, Guth was able to bring Pepsi-Cola back to solvency, with net profits over four million dollars by 1938.

One of the keys to his remarkable resurrection of Pepsi-Cola was a 1934 plan to recruit franchised bottlers. He hired four territory representatives to find franchisees across the country. The Eastern seaboard was handled by Joseph LaPides of Baltimore. Guth's plan proved very successful, with seventy-three bottlers signed up by 1935 and ninety-four by 1936.¹²¹ One of the businesses LaPides on called was located in Greenville, North Carolina.

LaPides met with the Minges brothers in 1935 and offered them a territory that covered virtually all of eastern North Carolina.¹²² M.O. Minges selected a Pepsi-Cola franchise that covered thirteen North Carolina counties around Greenville, while L.L. Minges' chose a larger geographic territory, including the cities of Rocky Mount, Fayetteville and Lumberton. These large territories would prove very beneficial in future years, as a new generation of family members entered the soft drink business.

It did not take long for the Minges brothers to generate sales with their newly acquired franchise. One of the first newspaper ads for Pepsi-Cola in Greenville was published in 1936, featuring a Pepsi-Cola bottle at five cents, with the slogan "Bigger and Better." A \$50,000 plant expansion opened in Greenville in 1936. It featured 10,000 square feet of space, with a production line that featured an automated bottle washer and a production capacity of 1,200 cases per day. It was reported as the most modern plant

¹²⁰ Milward W. Martin, *Twelve Full Ounces* (New York: Holt, Rinehart and Winston, 1962), 52.

¹²¹ *Ibid*, 64.

¹²² Woodrow Price, "Bottling of Pepsi a Family Affair," *Raleigh News and Observer*, July 11, 1976.

south of Washington, DC.¹²³ Although their business was still operating as the Orange Crush Bottling Company, it is likely that part of the expansion was in anticipation of the additional sales volume expected from the new Pepsi-Cola franchise.

With the benefit of hindsight, the Minges agreement with Pepsi-Cola was an excellent business move. In the decades to come, Pepsi-Cola would become a dominant soft drink and play a major role in the success of their business. However, in 1935, this was a risky undertaking for the Minges family. First, Pepsi-Cola was by no means regarded as a safe bet to survive, let alone to be a strong selling soft drink flavor. Second, and more significant was their investment in a plant expansion during the depression of the 1930s. To risk a substantial investment in plant and equipment upgrades, especially given the economic conditions of the time, was a major risk. The brothers' gamble turned out to be the pivotal move for the family business.

One cannot understand history of the Minges business without considering the family aspect. The brothers had started in the soft drink business together, but had set up separate operations within a few years. By the 1940s, the next generation of Minges started to enter the business. M.O. Minges' sons Jack, Forrest and Hoyt worked at the family business from a young age. L.L. Minges had a large family of eleven children, and seven of his sons worked in the soft drink business at one time. This was significant in that it demonstrated that both of the founders realized that the family-owner managed business model was critical to the success of a soft drink franchisee.

The Minges brothers groomed their sons to take over the business. Jack, son of M.O. Minges, started working as an assistant sales manager in 1949, was promoted to

¹²³ "Bottling Company New Headquarters Best To Be Found," *Greenville Daily Reflector*, May 19, 1936.

manager in 1951 and became president of the Greenville business in 1960.¹²⁴ Another one of his sons, Hoyt, started work in the syrup mixing room, and moved up to route salesman as a young man.¹²⁵ The method of starting at an entry level position and working their way up the business gave the sons a well-rounded experience in the various aspects of the soft drink business before they became managers. Evidently, the fathers believed that their sons were to work for their places in the business rather have management positions handed to them because of who they were. This approach would pay major dividends in the decades to come.

Another aspect of the family business was the approach for each son to run his own business. For the M.O. Minges business, eventually three separate plants were built: Jack in Greenville, Forrest in New Bern and Hoyt in Kinston. Hoyt worked with his older brother Forrest at the New Bern plant before taking over the Kinston operation in 1953. The same pattern occurred with those sons of L.L. Minges who spent their careers in the soft drink business. Herman ran the Pepsi franchise in Lumberton, North Carolina, Richard managed the Pepsi franchise in Fayetteville, North Carolina, while Edwin moved to Alabama and ran the Pepsi franchise in Tuscaloosa. By the 1950s, with all these sons running different franchises, the Minges family name came to be well known in the soft drink industry, and was referred to as the first family of Pepsi-Cola bottlers.¹²⁶

The Minges used an interesting approach where virtually every male family member ran his own soft drink business. The pattern started with the founding brothers, who set up separate businesses a few years after they established the original Orange Crush Bottling Company in Greenville, and it continued with each of their sons. One

¹²⁴ "John F. Minges II, civic leader, dies," *Greenville Daily Reflector*, Jan. 8, 1992.

¹²⁵ Obituary of Hoyt A. Minges, *Kinston Free Press*, Feb.3, 2004.

¹²⁶ "Expansion," *Pepsi-Cola World* (1957): 32.

explanation is that by each individual having his own business, it fostered a healthy competition. Although there would be cooperation within the family unit, each location would be responsible for its own results. Another explanation may be that this approach maintained family peace and cohesion. The dynamics of a family business can be difficult, with family loyalties, sibling rivalries and personal ambitions providing many opportunities for conflict. With each son in charge of his own operation, it allowed each to develop his own business empire independent from his siblings. Given the business results of the 1950s and 1960s, this approach worked well for the Minges family business.

It was during the decade of the 1950s that the Minges family began to receive recognition for superior business results. In 1955 and 1957, the Kinston plant won the award for the highest per capita sales of Pepsi-Cola in the US.¹²⁷ In 1953, the Greenville plant was recognized for outstanding sales achievement with over one hundred bottles per capita in sales of Pepsi-Cola. The Kinston plant placed ninth in the US for the number of vending machines per capita in their territory during 1957.¹²⁸ This family business was entering its prime as a soft drink franchisee.

An interesting aspect of the history of the Mingeses is their role in the development of the Mountain Dew brand. During the 1950s, Mountain Dew was an obscure lemon-lime flavor with a limited market in the southeast US. Owned by the Tip Corporation, it faced financial difficulties due to lagging sales in 1958 when its president, Bill Jones, approached a number of people in the soft drink business for potential investment. Two of the investors who agreed to invest in Tip Corporation were Richard

¹²⁷ Telegrams from Fred Bergen, Pepsi-Cola Company, Minges Collection, Joyner Library, East Carolina University, Greenville, North Carolina.

¹²⁸ "The blue box derby," *Pepsi-Cola World* (1957): 5.

and Herman Minges. As Herman Minges described it, he agreed to the investment out of friendship and did not expect to see a return on his investment.¹²⁹ His small investment based on benevolence would turn out to have unexpected results.

With the new investment, Jones worked on reformulating the Mountain Dew flavor. Working with the Minges brothers, the new Mountain Dew was test marketed in Columbus County, North Carolina in 1961. Even with limited advertising, the popularity of the flavor spread rapidly by word of mouth. By 1964, forty bottlers were selling Mountain Dew, resulting in annual sales of over ten million cases.¹³⁰ Members of the Minges family invested additional funds in Tip Corporation to help fund its growth.

The popularity of Mountain Dew was noticed by a number of national companies, including Pepsi-Cola. In 1964, Tip Corporation announced an agreement to exchange the company's shares for 60,000 shares of common stock in Pepsi-Cola.¹³¹ The Tip Corporation shareholders agreed to not sell their Pepsi-Cola shares for three years. Based on the shares owned by Minges' family members, by 1967 the exchange was worth almost four million dollars.¹³² The investment based on friendship a few years earlier had paid off handsomely for the family members.

The Mountain Dew story is a good example of how franchised bottlers made a soft drink manufacturer successful. The soft drink was an obscure brand with limited popularity in a few southeastern states. It was a group of bottlers that recognized the potential in this drink. They helped to fund, market and reformulate Mountain Dew.

¹²⁹ William H. Jones, "Town of Marion recognizes 'Home of Mountain Dew'," http://www.frederickshome.net/mtdew/mtdew_smyth72794.htm (accessed March 19, 2016).

¹³⁰ Ibid.

¹³¹ "Pepsi-Cola Co. Acquires Tip Corp. of America, Citrus Soft-Drink Firm," *Wall Street Journal*, September 9, 1964.

¹³² Dick Bridgforth, *Mountain Dew: The History* (North Charleston, SC: Booksurge, LLC, 2007), 173.

Their efforts made Mountain Dew such a successful product that it became attractive to a national company. Today, Mountain Dew is consistently one of the five top selling flavors in the US.¹³³ Without the efforts and investments of bottlers in the 1950s and 1960s, it is doubtful we would ever have heard of this brand.

The 1960s were a decade when the second generation of Mingeses hit their prime. The franchisees in Greenville, New Bern and Kinston dominated the annual Pepsi-Cola per capita measurements. Per capita consumption is a common measurement used in the soft drink industry to assess the performance of a territory or business based on the sales of soft drinks relative to the territory's population. The total sales are converted to common bottle size, such as eight fluid ounce equivalents, and this total is divided by the total population in a territory, typically based on census results. The resulting number is the average number of eight ounce bottles of soft drink consumed per person. In the soft drink industry, it is typically referred to as the per capita number. This is a useful measurement, as it provides a method to compare the sales in different franchise territories where there may be wide differences in population.

During the decade of the 1960s, a Mingeses soft drink franchise scored the highest per capita territory for any US Pepsi franchisee for five of those years. In 1964, the top three territories in the US were all owned by the Minges family.¹³⁴ Jack Minges won the Pepsi World award in 1963 for the highest per capita consumption of Pepsi-Cola

¹³³ Business Insider, "Pepsi surpasses Diet Coke in huge soda shift," <http://www.businessinsider.com/pepsi-surpasses-diet-coke-in-soda-shift-2015-3> (accessed March 24, 2016).

¹³⁴ "John Franklin Minges II," Minges Collection, Joyner Library, East Carolina University, Greenville, North Carolina.

in the world for his Greenville territory.¹³⁵ There is little question that this family's operations were able to make their North Carolina territories truly Pepsi country.

One of the characteristics of Minges family business operations was the rapid adoption of new marketing and sales techniques. They always seemed to be at the forefront of new methods. In the late 1950s, when coin operated coolers were introduced, the Mingeses installed thousands of these machines in their territory.¹³⁶ Sky banners, towed by airplane, were used for a number of their new product introductions. The Mingeses were early adopters of the new marketing medium of television. In 1964, Jack Minges said that fifty percent of the family's advertising budget was devoted to local television stations.¹³⁷ The Mingeses also pioneered the placement of advertisements in nationally televised events in cooperation with neighboring Pepsi-Cola bottlers.¹³⁸ It is evident that members of this family understood the use of mass marketing and were very effective in their territories.

The decade was also when some of the Minges family franchises were sold. The Pepsi-Cola franchise territories in surrounding the North Carolina cities of Fayetteville, Lumberton and Rocky Mount were sold in two transactions in 1967 and 1971.¹³⁹ These sales removed members of the L.L. Minges branch from the soft drink business in North Carolina for the first time in over forty-five years. This left only one other Pepsi-Cola franchise, based in Tuscaloosa, Alabama, in this branch of the family. The Alabama franchise was later sold in 1986.

¹³⁵ James Whitfield, "Jack Minges: Pitt Businessman, Civic Leader," November, 1963, Minges Collection, Joyner Library, East Carolina University, Greenville, North Carolina.

¹³⁶ "For a way of life," *Pepsi-Cola World* (1957): 4.

¹³⁷ "World's top Pepsi distributor lays success at feet of TV," *Pepsi-Cola World* (1964): 26.

¹³⁸ "Basketball broadcast," *Pepsi-Cola World* (1957): 6.

¹³⁹ Woodrow Price, "Bottling of Pepsi a Family Affair," *Raleigh News & Observer*, July 11, 1976.

The reason for the sale of these franchises is unclear, but there were a numerous plausible reasons. One explanation is that there were no family members of the next generation who wanted to take over the business. With most second generation family members approaching the age of sixty, it is likely that without any heirs interested in running the family business, they were agreeable to an exit strategy. If this reason is true, it demonstrated a bias of franchisees toward the family-owner managed business method. Family members may have been reluctant to turn their company over to hired, non-family management.

It should also be kept in mind that most of this branch of the Minges family had profited handsomely from the sale of the Tip Corporation to Pepsi-Cola a few years earlier. With these profits, they may have decided that they were financially secure. It would be reasonable that this factor, combined with the advancing age, made them agreeable to sell the franchises.

Another consideration is that these family members may have foreseen the changes coming to the soft drink business and did not have the desire to adapt their businesses to these changes. By 1970, it was evident that bottlers needed to carry more brands and flavors to compete for consumer tastes. New packages, such as cans and plastic bottles, were becoming common, and whole new production lines requiring massive investments were needed to produce these items. It was at this time that the competition with Coca-Cola became fierce, causing price wars and eroded sales margins. Bottlers had to expand in size to cover the required investments, and some Minges family members may have been unwilling or lacked the drive to tackle these challenges.

For the other branch of the Minges family, the 1970s was a decade of transition. One of the founders of the business, Miles Otho Minges, passed away in 1970 at the age of 76. Since his retirement from the Pepsi-Cola business in 1960, he had been largely active in philanthropic activities near his residence in Greenville. By 1976, a number of the members of the Mingeses' third generation were active in the business and were groomed to take over.¹⁴⁰ In Kinston, this included Hoyt's sons Hoyt, Jr. and Jeffery. Forrest's sons Mike and Forrest, Jr. worked at the New Bern location. John Minges III worked at the Greenville plant at the age of thirteen. This family had developed a method to groom the new generation in a succession of duties within the business. Even today, this approach is evident as the Minges family business's current chief executive officer is Jeffery Minges, and four young members of the fourth generation work in the business.¹⁴¹

The Minges soft drink business continued to prosper during the 1970s, although they no longer dominated the Pepsi bottler rankings. In a 1976 interview, Jack Minges attributed the drop Pepsi-Cola Company's change in the rules for the per capita award, with calculations based on an equivalent eight ounce measurement rather than an actual bottle count.¹⁴² It is also quite possible that as the cola wars with Coca-Cola intensified other Pepsi-Cola franchises experienced dramatic increases in their sales. In any event, the Mingeses received an award for Pepsi per capita sales in 1971 and for Mountain Dew per capita sales in 1975, 1977 and 1979.¹⁴³

¹⁴⁰ Woodrow Price, "Bottling of Pepsi a Family Affair," *Raleigh News and Observer*, July 11, 1976.

¹⁴¹ Minges Bottling Group, Inc., "History," www.mbgpepsi.com/about-us/history/ (accessed March 15, 2016).

¹⁴² Woodrow Price, "Bottling of Pepsi a Family Affair," *Raleigh News and Observer*, July 11, 1976.

¹⁴³ "John Franklin Minges II," Minges Collection, Joyner Library, East Carolina University, Greenville, North Carolina.

This branch of the family also continued to invest into their business. In 1970, a new soft drink facility was opened at their New Bern location. The 60,000 square-foot facility was reputed to have cost one million dollars.¹⁴⁴ It boasted a production line with a capacity of 525 bottles per minute. The city of New Bern was the birthplace of Pepsi-Cola, and this facility was also designed to include a museum area. The Kinston location suffered a fire in 1975, but was rebuilt in 1976 as an 80,000 square-foot plant.¹⁴⁵ This plant featured a new production line, which included the capability to fill all the new bottle sizes from the two-liter plastic bottles through ten-ounce glass bottles. Evidently, the family had confidence in their business, and wanted their franchise to continue to keep pace with soft drink industry changes.

By 1980, the Minges family had been a soft drink franchisee for almost sixty years. By a number of measurements, they were one of the most successful franchised bottlers in the US. Their sales of soft drinks represented major market saturation within their territories. They had also made it a true family business, involving many family members spanning three generations. The Minges family is another excellent example of what a well-run, family owned and managed soft drink franchise has been able to accomplish.

¹⁴⁴ "Trade Talk," *Pepsi-Cola World* (1970): 167.

¹⁴⁵ Woodrow Price, "Bottling of Pepsi a Family Affair," *Raleigh News and Observer*, July 11, 1976.

IV. ANALYSIS AND CONCLUSION

Based on the two case studies, there were several factors that proved critical to their success as soft drink franchisees. Both Dublin Dr. Pepper and Minges Bottling are notable because they excelled within the business franchise model of the soft drink franchise agreement. Their solid business operations as soft drink franchisees generated remarkable sales results. Combined with the sales of other bottlers in the franchise network, these businesses caused Americans to be the highest consumers of soft drinks in the world. Because of their franchisees, soft drink manufacturers such as Coca-Cola and Pepsi-Cola grew into vast multi-national corporations.

In contrast, had the soft drink manufacturers not utilized a franchise network in the United States, soft drinks would most likely have been distributed via more traditional business arrangements. Under one method, the soft drink manufacturers would have established a network of company owned branch plants and warehouses to produce and distribute their product. Business management would have been handled by paid employees. In Europe, soft drinks are commonly marketed using branch plants.

Interestingly, since 1980, the American soft drink industry has moved back to the company owned, branch plant business model. In particular, Coca-Cola and Pepsi-Cola have bought out most of their franchised bottlers over the past thirty-five years. One recent study estimated that ninety percent of Coca-Cola sales in the United States were sold through company owned warehouses, and that the Dr. Pepper Snapple group had over fifty percent of its sales through its branch plants.¹⁴⁶

¹⁴⁶ Rutgers University Supply Chain Management Center and Changelab Solutions, "Breaking Down the Chain: A Guide to the Soft Drink Industry,"

A second potential method is to utilize food and beverage wholesalers.

Wholesalers are middlemen who buy products from many manufacturers and then sell their broad assortment of products to retail stores and institutions. This method is common with products of relatively low sales volumes or profit margins. For example, candy bars and other confection items are typically distributed by wholesalers such as Sysco and US Food Service.

One of the most important success factors shared by the two case studies was the fact that both these businesses were family owned. Dublin Bottling Works and Dublin Dr. Pepper were managed and owned by Sam Prim. He, along with his brother James, owned the business for some fifty years. After Sam died, his daughter Grace Lyon took over ownership of the business, and ran it for the following thirty years. Similarly, the Minges soft drink business was founded by brothers Miles Otho and Luther Lester Minges in 1923. They owned their soft drink franchises through the 1950s, with several sons taking over the business from their fathers. A third generation of the Minges family took over the soft drink franchises in the 1970s and 1980s and one branch of their family business continues to the present day.

Family succession was also present with Dublin Dr. Pepper employees. Bill Kloster's wife Iona maintained an interest in the business and worked as the bookkeeper from 1976.¹⁴⁷ Bill's son Jeffery was also employed by the business. An article about Bill Blain's thirty-seven years with the company mentions his son Ted worked his summers as a helper on a soft drink route truck.¹⁴⁸ These examples illustrate that Dublin Dr.

[http://www.changelabsolutions.org/sites/default/files/ChangeLab-Beverage_Industry_Report-FINAL_\(CLS-20120530\)_201109.pdf](http://www.changelabsolutions.org/sites/default/files/ChangeLab-Beverage_Industry_Report-FINAL_(CLS-20120530)_201109.pdf) (accessed May 7, 2016).

¹⁴⁷ Bill Grimes, "Our Businesses," *The Dublin Progress*, March 13, 1980.

¹⁴⁸ "Bill Blain Completes 37 Years of Service With Dublin Plant," *Clock Dial* (1942).

Pepper was a good employer, and the relatives of employees were interested in working there.

The dynamics of family members who work together in a business is complex, but when managed successfully, there are many advantages. Family members are loyal to each other, and will put forth extra effort to meet common goals. They trust one another and can be relied upon during difficult times. The advantages of family synergy help to explain why virtually all of the successful soft drink franchises are family owned and managed, and are often multi-generational.

Both of these businesses successfully handled the transition of their business to an upcoming generation. As the second generation advanced in the Minges family business, their fathers set up individual businesses in different cities for each of their sons to eventually take over and run as their own. As well, family members of the upcoming generation were groomed to handle the family business. Minges' sons often started at entry level positions in the business, sometimes as teenagers, and moved through different roles in their early years with the business. In this way, the upcoming Minges offspring learned all facets of the soft drink business well before they took on management positions. As well, the older generation was present to give guidance and correction as their children developed their business skills. It is questionable if this method would have been as successful with paid employees.

Dublin Dr. Pepper also handled the generational transition well. Sam's daughter, Grace Lyon joined her father in Dublin Dr. Pepper shortly after completing her education in the 1930s. She transitioned from handling clerical tasks in the office to handling the office administration tasks as her father's health declined, eventually taking over the soft

drink franchise after her father died in 1946. Although he was not a family member, Dublin employee Billie Kloster was treated as such. As Grace aged, she turned more of the Dublin Dr. Pepper management over to Billie. When Grace died in 1991, she willed the entire business to Kloster. After Billie Kloster's death in 1999, the business continued to be run by his sons and grandsons.

The multi-generation aspect in the case study businesses is highly significant, as it suggests that soft drink franchisees are one of the few businesses that can be successfully transferred to offspring. Only ten percent of privately owned businesses are viable by the third generation. In the business world there is a saying that “shirtsleeves to shirtsleeves in three generations.”¹⁴⁹ Not limited to American business, this adage is also found in other languages. In Spanish, the saying is “padre bodeguero, hijo caballero, nieto pordiosero” (father grocer, son gentleman, grandson beggar).¹⁵⁰ In Brazil, it is “Pai rico, filho nobre, neto pobre” (rich father, noble son, poor grandson). In China, they say “Fu bu guo san dai” (wealth never survives three generations). And the Italians say “Dalle stalle alle stelle alle stalle” (from the stables to the stars and back to the stables).¹⁵¹

It is remarkable that the two case study businesses were able to achieve such longevity of family ownership. And yet, they are by no means unique. The Christian, Sams, and Crass families of central Virginia owned and managed a number of Coca-Cola

¹⁴⁹ Harvard Business Review, “Avoid the Traps That Can Destroy Family Businesses,” <https://hbr.org/2012/01/avoid-the-traps-that-can-destroy-family-businesses> (accessed April 24, 2016).

¹⁵⁰ Omnia, “Using Behavioral Assessments to Save the Family Business,” <http://www.omniagroup.com/using-behavioral-assessments-to-save-the-family-business/> (accessed May 14, 2016).

¹⁵¹ EY Family Business Blog, “Beyond the third generation,” <https://familybusinessblog.ey.com/category/succession/third-generation/> (accessed May 14, 2016).

franchises for almost one hundred years.¹⁵² The Meek family has owned and run the Coca-Cola franchise in Fort Smith, Arkansas, through three generations. The Davis family owned and managed soft drink franchises based in Allentown, Pennsylvania, for almost seventy years. The Gokey family has held a Pepsi-Cola franchise in North Dakota since the 1940s.¹⁵³ There are numerous other examples in the US soft drink industry. It is evident that the franchise business model in the soft drink industry tends to promote multi-generation family ownership.

An interesting parallel can be found with automobile dealerships, another industry that has used business franchising since the early years of the twentieth century. These dealerships were also often family owned. In a 2008 study of auto dealerships in Spain, Manuel Carlos Vallejo identified a number of factors that caused these family businesses to survive through multiple generations.¹⁵⁴ The study identified some key differences between family firms and non-family firms in this industry, including a higher degree of employee loyalty, a higher reinvestment of profits into the family firm, and more long-term oriented management decisions. Similar qualities could be attributed to the family ownership of soft drink franchises.

A more intriguing question is why these two family-owned business franchisees accomplished multi-generational transfers where other family businesses experienced such high failure rates by the third generation. Although Vallejo identified a number of critical variables, he did not compare these among other industries where family

¹⁵² Virginia Historical Society, "Central Coca-Cola Bottling Inc.," <http://www.vahistorical.org/collections-and-resources/how-we-can-help-your-research/researcher-resources/finding-aids/central> (accessed April 26, 2016).

¹⁵³ Families known from professional experience of the author.

¹⁵⁴ Manuel Carlos Vallejo, "Is the Culture of Family Firms Really Different? A Value-Based Model for Its Survival through Generations," *Journal of Business Ethics* 81, no. 2 (August 2008): 261-279.

ownership was present. In their 1976 study of business franchising, Richard E. Caves and William F. Murphy II pointed to some natural advantages of certain family-owned and managed franchise businesses.¹⁵⁵ The study contends that auto dealer profits depended on effective bargaining in individual transactions, while soft drink bottlers needed firsthand knowledge and contact with the customers in their franchise territory. Because of these factors, the two industries were more successful with the franchise business model than with the branch plant business method.

Caves and Murphy also pointed to the cost of entry into a franchise. A soft drink bottler had significant investments in the plant, production equipment, delivery vehicles, glass bottles and other assets. Automobile dealers also needed investments in a showroom, service department, replacement parts and inventory. The franchise agreement also limited entry into the market. Once a soft drink franchise was assigned a territory, it effectively created a monopoly, as no other business could sell the soft drink in that territory. Auto dealers did not have the same exclusivity, but car manufacturers limited the dealers in any one area. These two factors combined to limit the businesses that could function as a soft drink bottler or auto dealer. This was a very different economic dynamic than other businesses, such as convenience stores, where it was relatively easy to enter the market.

In comparison to the other two business models, a branch plant might have some family members working for the business. However, if any manager hired, let alone groomed a son or relative for promotion, the manager would be open to charges of nepotism. On the other hand, a food wholesaler business could be family owned. In this

¹⁵⁵ Richard E. Caves and William F. Murphy II, "Franchising: Firms, Markets and Intangible Assets," *Southern Economic Journal* 42, no. 4 (April 1976): 582.

case, the same family dynamics may be present. This would be especially true if the same success factors were present, such as significant business investment, long term management horizon and younger generation participation. The synergy of family loyalty could be applicable to the food wholesaler business model, but would be missing from the branch plant model.

A related success factor shared by both of the case studies is that both the businesses' day-to-day management was handled by a member of the ownership family. The franchise founders, the Minges and Prim brothers, founded and managed their start-up soft drink franchises. Both families had children who entered the business and eventually took over as owner-managers. For Dublin Dr. Pepper, Sam Prim's daughter Grace joined the business in the 1930s, and took over much of the day-to-day management as her father's health was failing in the next decade. Grace then ran the Dublin Dr. Pepper franchise for almost the next thirty years. For the Minges family, the founding brothers had ten of their sons work in soft drink business. In fact, the Mingeses followed a method where each son managed his own soft drink business at separate locations. The M.O. Minges family also has a third generation owner-manager, Jeff Minges, who runs their Pepsi-Cola soft drink franchise to the present day.

The owner-managers were not just absentee owners, but were very active in the businesses, with hands on, day-to-day management. In this role, they made daily decisions on business operations, decided on long term investments, and set the strategy for their soft drink franchises. As owners, they invested a high level of their personal time and resources into the future success of their businesses. In the 1920s and 1930s, Sam Prim was distracted by his many other business ventures. Consequently, his soft

drink business did not prosper during that time period. Dublin's example suggests that day-to-day management by an owner was mandatory for a soft drink franchisee to thrive and grow.

In comparison to the owned branch plant business method, a critical difference is that the manager is not an owner. The manager in charge of a branch plant will usually be a hired employee. In larger organizations, hired managers are typically evaluated on measured results and will manage the business to achieve those results. The measurements may not always be consistent with the long-term goals of the business. As business management expert Peter Drucker put it, "Management by objectives works if you know the objectives. Ninety percent of the time you don't."¹⁵⁶ Owner-managers are generally superior because they will manage toward what is best for the long term good of the business.

In both case studies, the businesses achieved their greatest success during the second generation. Dublin Dr. Pepper had its highest per capita consumption from the years of the late 1950s through the 1970s, when Grace Lyon, daughter of founder Sam Prim's, was the owner-manager. Brothers Jack, Forrest, and Hoyt Minges dominated Pepsi-Cola's per capita rankings from the late 1950s through the 1960s. In some years, their three owner-managed plants held the top three positions in the American Pepsi-Cola bottler ranking. These results support the contention that the owner-manager business model was the superior method for soft drink franchisees.

A benefit of the family owned and managed business model can also be seen in the record of employee longevity within the case study businesses. The ability to retain

¹⁵⁶ Peter Drucker. BrainyQuote.com, Xplore Inc, 2016, <http://www.brainyquote.com/quotes/quotes/p/peterdruck129829.html> (accessed May 15, 2016).

employees for long periods of time was a key component to Dublin's success. The story of Bill Blain was featured in the 1942 internal Dr. Pepper newsletter, with thirty seven years with the Dublin plant. Billie Kloster started working for the business in 1933, and except for army service during World War II, was part of the company until his death in 1999. E. C. Stratton was a thirty-eight year employee for Dublin Dr. Pepper.¹⁵⁷ Dennis Smith worked at the Minges' Kinston franchise for almost forty years.¹⁵⁸ Employee longevity was also present with other soft drink franchisees. At a 1957 event, the Charlotte, North Carolina franchise honored several employees who had worked for them for a total of 223 years. Even today, it is very common to see twenty-five, thirty and forty year careers with the same soft drink franchisee. As Dublin's Billie Kloster related in 1986, "it is as if the soft drink business gets in someone's blood, and they never want to leave the business."¹⁵⁹

These examples of employee retention reveal several key points. The owner-managers of these businesses valued their employees and made efforts to retain them. While it is true that there was a trend in the first half of the twentieth century for a person to work their entire career for a single employer, the dynamics of a small business would not always make this possible. The owner-managers cared personally about the people who worked for them. Current Minges chief executive Jeff Minges knows each of his two hundred plus employees by name.¹⁶⁰ When Grace Lyon died in 1991, she had no children, and instead of passing the business on to more distant relatives, her will stated that the business was to be passed onto long time employee Billie Kloster. This care for

¹⁵⁷ Wendy Jo Brown, "E.C. Stratton recalls 38 years of service in Dublin," *The Stephenville Empire-Tribune*, 1981

¹⁵⁸ Jason Spencer, "Born in the Carolinas," *Kinston Daily Free Press*, June, 2004.

¹⁵⁹ Paul Long, "Bottling plant still a Pepper," *Plainview Daily Herald*, Sept. 21, 1986.

¹⁶⁰ Jason Spencer, "Born in the Carolinas," *Kinston Daily Free Press*, June, 2004.

their people was returned in loyalty and the businesses retained their employee's experience for many years.

The retention of experienced employees is also a very positive sign for the business. In a small center such as Dublin or Greenville, word probably spread on the good working conditions at the local soft drink plant, and helped the businesses to attract good workers. By retaining employees over many years, the businesses benefited from their job experience. Conversely, a high employee turnover adds dramatically to the operating expenses of the business in the form of training of new employees and mistakes due to inexperience. With other business models, it is doubtful that this level of care for employees would be feasible, as a manager's incentives to meet performance goals would take priority over employee welfare.

Another success factor shared by both the case studies was the willingness to make significant long term capital investments in their businesses. Dublin Dr. Pepper revamped their production facility with a modern production line in 1951. In 1935, the Minges brothers invested in a major facility upgrade at their Greenville location to handle the newly acquired Pepsi-Cola franchise. During the 1950s, the Mingeses expanded their business by setting up a number of new plants that were managed by Minges sons. In 1970, the M.O. Minges branch of the family invested one million dollars to upgrade their New Bern location, and in 1976 rebuilt their Kinston plant after a devastating fire.

Each of these investments involved major risks for the family businesses. Large investments are often financed by debt in the form of bank loans, which add significant amounts to the businesses' overhead costs. On the other hand, these investments were critical to the long term success of their businesses. Without the new plant in 1935, it is

questionable that the Minges Pepsi-Cola franchise would have grown through the 1940s. Had the Dublin Dr. Pepper plant not modernized in 1951, they would not have been able to handle the growth in Dr. Pepper sales due to its popularity with the emerging baby boom generation.

An interesting pattern pertains to the timing of these investments. For both the case study businesses, major investments occurred during the initial years when family members of the new generation began running the business. In 1951, Dublin Dr. Pepper revamped their production facility, five years after Grace Lyon inherited the business from her father. During the 1950s, the Minges family opened a number of new soft drink plants that were run by the family's second generation. The M.O. Minges branch of the family made major investments in the 1970s, as the third generation of their family became active in the business. The timing of these investments likely indicates a desire to promote the success of the new generation.

With the branch plant business model, it is questionable if these investments would have occurred in the same manner. Large companies tend to place their branch plants in areas where they are more assured of high sales, such as densely populated urban centers. It is doubtful that rural sparsely populated territories in Texas or North Carolina would have justified a large capital budget outlay from the head office. Yet because of these investments both Dublin and Greenville were able to achieve the amazing per capita consumption of soft drinks. As Vallejo found, family firms reinvest a greater proportion of their profits than non-family firms.¹⁶¹ The willingness to invest in

¹⁶¹ Manuel Carlos Vallejo, "Is the Culture of Family Firms Really Different? A Value-Based Model for Its Survival through Generations," *Journal of Business Ethics* 81, no. 2 (August 2008): 270.

the long term of their businesses is another reason why the family owner-managed business model was successful for soft drink franchisees.

Another success factor shared by the two case studies was the extensive use of creative marketing techniques. Both businesses were skilled at devising innovative methods and campaigns to promote their products. The Minges family and their efforts were frequently showcased in the publication “The Pepsi World”, which was circulated to Pepsi-Cola personnel and their franchised bottlers. Presumably their innovations were publicized to inform other bottlers so that they could learn from their successful methods.

A couple of examples illustrate their creativity. In 1963, the Minges Greenville location ran a promotion for their fountain sales through a back-to-school campaign.¹⁶² Fountain drinks are dispensed from machines into cups for immediate consumption. Named Eat 'N Treat, the campaign included radio and newspapers ads, the placement of 650 fountain machines and two airplanes with banners and loudspeakers. At Greenville's East Carolina College, it is estimated that 30,000 free drinks were given to students. Parents purchasing back to school supplies were encouraged to try free samples of Pepsi-Cola at shops and restaurants. Jack Minges felt the publicity and the repeat business made the campaign a major success. Given that this promotion took place during the baby boom years, it targeted a sizeable segment of the population.

A second example was the 1969 promotion to Lumberton territory service stations, called “Mobile Marketing.”¹⁶³ The goal of this campaign was to sell soft drinks by the case, typically containing twelve or twenty-four bottles, versus the traditional carton of six bottles. Minges purchased radio ads that promoted specific service stations.

¹⁶² “Fountain Pressure,” *The Pepsi World* (1963): 108.

¹⁶³ “Selling Mobile,” *The Pepsi World* (1969): 164.

In return, these service stations allowed Minges to set up case display stands and agreed to have their personnel suggest to their customers to buy a case of Pepsi while their car was serviced. The results exceeded their expectations, as 284 of 299 service station accounts participated, and 1,584 cases were sold in the ten day promotion period. With the growing numbers of cars on the road at this time, this was another well targeted promotion.

The Mingeses were also masters in the use of techniques to keep the Pepsi-Cola brand visible within their territory. In the 1950s, they placed large quantities of new coolers and vending machines, making it very convenient for customers to buy a cold soft drink with a coin or two. Airplane-towed banners were often used during new product introductions. Marketing campaigns such as these made eastern North Carolina truly “Pepsi Country”.

Dublin Dr. Pepper’s expertise is evident with the use of local events to promote their soft drinks. They often had a booth or table at local fairs and community events where they gave away free samples of their products. The business was a sponsor for local rodeos, high school football games and school book covers. Through this marketing, the Dr. Pepper brand became well known in the community.

Dublin also targeted schools with the same creative marketing strategies. For many years, Dublin Dr. Pepper handled the purchase of paper book covers for the local school districts’ textbooks, with 6,000 book covers purchased for the Comanche Public Schools in 1957.¹⁶⁴ In 1959, Dublin Dr. Pepper bought an eight page program for the football team. These efforts helped to keep the Dr. Pepper name visible to students every

¹⁶⁴ Grace Lyon to Neil Kinnard of the A.T. Walraven Book Cover Company, December 16, 1957, Dublin Dr. Pepper Archives, Dublin, Texas.

school day. A 1961 campaign placed Dr. Pepper vending machines placed in all but one of the Dublin territory high schools.¹⁶⁵ In the same year, a free bottle of Dr. Pepper was given to every student who received a Salk polio shot.¹⁶⁶ These efforts influenced soft drink consumption at a young age and enabled Dublin Dr. Pepper to build their consumer base for the future.

The key element that made these marketing efforts work was how they were tailored to their local communities. The bottlers grew up and lived in their communities, so they knew what marketing activities would work well in their home towns and cities. For example, Grace Lyon knew that her habit of personally talking to every person or group who visited her Dublin plant would enhance her company's image in a small town such as Dublin. In the same way, the Mingeses knew that the convenience of coin operated vending machines would be popular during the hot and muggy North Carolina summers. These franchisees were successful because they understood the marketing activities that worked in their territories.

Contrasting this to other business models, it is conceivable that the manager of a branch plant might be aware of marketing efforts that would be effective for his location. However, he might be constrained by marketing campaigns designed at a head office which may or may not apply to his territory. As well, it is questionable if a branch plant manager would have the long term horizon of a franchisee. For example, a branch plant might be reluctant to expend efforts marketing to schools if it might take years for these efforts to yield increased sales. With the food wholesaler business model, local marketing is decided by the wholesaler, who typically focused on the items that have the

¹⁶⁵ "Dublin Dr Pepper Plant Observes 70th Anniversary," *Clock Dial* (Nov-Dec, 1961): 22.

¹⁶⁶ *Ibid.*

highest potential profits. Often, the advertising is left to the manufacturer. As with the branch plant business method, manufacturers will devise national or regional campaigns, which may or may not apply to a specific location. It is unlikely that either of the alternative business methods would be tailored to a small city or town. For these reasons, creative marketing was superior under the franchise business method.

The case study businesses also excelled at mass media advertising. Awareness is a critical component for sales of convenience products such as soft drinks. Television was a mass medium that came of age during the 1950s and 1960s. In particular, the Mingeses recognized the potential of television. By the 1960s, over one-half of their advertising budget was devoted to television.¹⁶⁷ Besides local television ads, the Mingeses also recognized the audience potential of national events. When North Carolina college basketball teams were competing for the national championship, the Mingeses worked with neighboring Pepsi-Cola bottlers to purchase advertising spots during the national television broadcasts.¹⁶⁸ Evidently, the Minges family understood the power of mass marketing through television.

Dublin Dr. Pepper had a much smaller territory, so the use of television was not as important. Instead, Dublin focused on other media such as billboards and signage. For example, during a 1961 sales campaign, Dublin installed several hundred point-of-sale signs and advertising, scores of carton racks and four storefront signs.¹⁶⁹ As with the other case study business, Dublin tailored their efforts toward what worked best within their sales territory. With this approach, reminders of the Dublin Dr. Pepper name and logo were continually visible to consumers.

¹⁶⁷ “World’s top Pepsi distributor lays success at feet of TV,” *Pepsi-Cola World* (1964): 26.

¹⁶⁸ “Basketball broadcast,” *Pepsi-Cola World* (1957): 6.

¹⁶⁹ “Dublin Dr. Pepper Observes 70th Anniversary,” *Clock Dial* (November-December, 1961): 22.

Compared to other business models, the major difference was the local focus. A branch plant business would typically have advertising decisions made at a remote head office. It is questionable if they would have devoted budget funds to events such as a North Carolina college basketball game that was not of high interest in other parts of the country. A similar motivation also applies to a food wholesaler, who would direct their spending on mass media toward products and territories that had large potential for sales. With the soft drink franchisee's focus on their local territory, their mass media efforts were much more targeted and effective.

Another success factor that both of these businesses shared was presence in their communities. Presence took two forms. The first is what we would today call networking. The businesses and their families made it a priority to participate and be well known in both their business world and their community. The second aspect of presence was philanthropy. Both of the case study businesses donated generously to charitable causes in their communities.

One method businesses use to support their community is sponsorships, and in this regard, Dublin Dr. Pepper was very active. They sponsored events such as the Dublin Rodeo, the high school football program, and local county fairs. They also supported special events, such as their sponsorship of the World Championship Rodeo when it was held in Dublin in 1941 and 1943. Sponsorships were an excellent marketing technique for the soft drink franchisee. Their investment helped the events to succeed, and in turn helped the community. For the franchisee, it meant their business name was publicized, with their name in the event program or on a sign or banner at the event. The

business also gained the intangible benefit as a community supporter, which might influence consumers and purchasers of soft drinks.

For Dublin Dr. Pepper, both Sam Prim and Grace Lyon recognized that they must also be active members of the community. Sam Prim was a member of the local school board and city council for many years, serving as the mayor pro-tem for a short time. Grace Lyon was a member of the local Rotary service club. Grace was also active in bottler associations, serving as vice president of the North Texas Dr. Pepper Salesmen's Association in the 1950s. These community efforts also built name recognition for the business. A common sales principle is that people do business with the people they know, like and trust.¹⁷⁰ Both of the case study businesses recognized and capitalized on this principle.

Another community activity for Dublin Dr. Pepper was the plant tour. Groups came to the soft drink business, toured the production facility and often sampled the product. As Grace Lyon told a reporter in 1951, "we are always happy to have visitors at our place and extend to one and all a cordial invitation to come in at any time."¹⁷¹ Visits such as these plant tours helped to introduce their product and business to guests. The tours often included school groups, and as with many products, when we develop a taste for a product in our childhood, we tend to purchase it as adults.

Grace Lyon also demonstrated a remarkable talent for the personal approach when dealing with the public and her customers. It was said that when she was in her office, she made it a point to personally greet and speak to each visitor to the facility. A 1955 letter from golf legend Ben Hogan relates how Grace personally obtained a photo

¹⁷⁰ Inc., "3 Little Known Sales Secrets," <http://www.inc.com/bill-carmody/the-know-like-amp-trust-growth-model.html> (accessed September 30, 2016).

¹⁷¹ "Dublin's Dr Pepper Plant Keeping Step With Times," *Stephenville Daily Empire*, April 8, 1951.

for him of Hogan's father, who had worked for Dublin Bottling Works in his younger years.¹⁷² Grace's personal touch was remembered by customers and likely played a role in their buying decisions. When the manager demonstrated this approach, it influenced other people in the organization. Attention to personal detail was encouraged by the franchise method.

The Minges family was also very active in their communities. An excellent example was the extensive record of Jack Minges, who managed the Greenville Pepsi-Cola franchise for some thirty years. He was very active with the Boys Club of America, and received the National Man and Boy award in 1986. In 1979, he was named the outstanding citizen of the year award by the Pitt Greenville Chamber of Commerce. From 1977 through 1981, Jack served on the East Carolina University Board of Trustees. In 1967, he helped to found the East Carolina University Foundation, and was very active in fundraising for this institution. He served on the board for the Greenville Arts Council, Chamber of Commerce, Pitt County Memorial Hospital Foundation, and Pitt County United Fund.¹⁷³ Given his active community life, it is no wonder that Jack Minges was well known throughout his franchise territory.

In terms of philanthropy, Dublin Dr. Pepper had many examples of giving back to their community. In the early 1970s, Grace Lyon donated a building that was used to house the historical museum of Dublin. The building came to be known as the Lyon Museum, in honor of her late husband.¹⁷⁴ A 1975 article featured a photo of Grace giving a five hundred dollar donation to the Tarleton Stadium Fund.¹⁷⁵

¹⁷² Ben Hogan letter to Grace Lyon, August 31, 1955, Dublin Dr. Pepper Archives, Dublin, Texas.

¹⁷³ Minges Family Archives, Joyner Library, East Carolina University, Greenville, North Carolina.

¹⁷⁴ "Museum building donation," *Stephenville Empire-Tribune*, March 16, 1977.

¹⁷⁵ "Willing Donor," *Stephenville Empire-Tribune*, March 31, 1975.

It is difficult to find a family business that donated as much to their communities as the Mingeses. In 1957, as a memorial to their parents, the children of L.O. Minges donated \$100,000 for a new college in Rocky Mount.¹⁷⁶ A 1965 donation of \$25,000 to the East Carolina College Field House Fund was at the time the largest gift ever received from a private source for the college.¹⁷⁷ The Minges family was honored for their donations and fundraising with the naming of the Minges Coliseum at East Carolina University.¹⁷⁸ In 1984, the Minges family donated \$40,000 to the East Carolina Scholar Award.¹⁷⁹ The YMCA in New Bern, the Council for the Arts in Kinston, and Arendell Parrott Academy were other beneficiaries of the Minges donations.¹⁸⁰

Compared to the other business models, it is questionable if either would motivate this type of commitment to their community. A branch plant may carry out some of these activities, but it is questionable that a head office would approve the large donations these families contributed to their communities. A food wholesaler would similarly have little commitment to a community. Neither business model would induce their managers to make long term commitments to the community, unless their head office was based in the city.

A common business saying is that people buy from people they know, like and trust.¹⁸¹ It appears that both Dublin and Minges understood this, and were very active in their communities. In doing so, they gave a personal face to their businesses, making

¹⁷⁶ "For a way of life," *The Pepsi World* (1957): 2.

¹⁷⁷ "Minges Family Makes Biggest Gift for ECC Field House," *Goldsboro News-Argus*, December 2, 1965.

¹⁷⁸ "Minges Family Honored," Minges Coliseum Dedication East Carolina University, January 27, 1968.

¹⁷⁹ John Franklin Minges II, Minges Family Archives, Joyner Library, East Carolina University, Greenville, North Carolina.

¹⁸⁰ Jason Spencer, "Born in the Carolinas," *Kinston Daily Free Press*, June, 2004.

¹⁸¹ Bob Burg, *Endless Referrals* (New York: McGraw-Hill, 2006), xiii.

them recognized and respected in the community. Their standing in the community became a foundation to their success as soft drink franchisees.

The ability of both of these case study businesses to maintain diversified product lines also contributed to their success. Compared to the wide variety of soft drink selections available for today's consumer, it is important to remember that the most popular soft drinks were sold in only one flavor and in glass bottles until well after World War II. Bottlers of Coca-Cola, Pepsi-Cola or Dr. Pepper could rarely generate sufficient sales from a single product. To be successful, the franchisee needed to carry a variety of products to generate adequate revenue. The diversified method also made sense from a delivery cost viewpoint, as there was minimal additional cost to deliver several lines of soft drinks when your truck was already scheduled to stop at the customer location.

For Minges, although they initially named their business after the Crush brand, they sold other soft drink flavors as well some beer products. The heading of a 1941 invoice from New Bern detailed soft drinks Pepsi-Cola and Crush, as well as Budweiser and Boars beer. Their efforts in the late 1950s to find a popular lemon lime drink, which eventually led to the development of the Mountain Dew flavor, was part of an effort to expand and diversify their product line.

In the same way, Sam Prim was a master at maintaining a diversified product line for his business. For Prim, this was a survival strategy, as his territory never developed a large population base. The heading of an 1897 bill of sale details that the business was a manufacturer of soda and mineral waters, keg and bottled ciders, ginger ale, as well as a dealer in grain, hay and mill stuff.¹⁸² Over the years, Dublin Dr. Pepper sold many well-

¹⁸² Dublin Bottling Works Bill of Sale to Mr. Tom Latterdale, dated June 30, 1897, Dublin Dr. Pepper Archives, Dublin, Texas.

known brands, including Welch's Grape, Sunkist Orange, Bubble Up, Hawaiian Punch, Big Red, Canada Dry, Orange Crush, and A&W Root Beer in addition to their flagship Dr. Pepper brand.¹⁸³

Interestingly, it took until the 1960s for soft drink manufacturers to recognize the need for a diversified product line. The manufacturers internally developed some new flavors, such as low calorie soft drinks, while other brands, such as Mountain Dew, were purchased. By the 1980s, each of the large soft drink manufacturers had a broad product line with a variety of flavors. Franchise bottlers pioneered this approach and demonstrated to the manufacturers a need to carry a diversified product line.

For the soft drink franchisees, these success factors hinged on the unique structure of the franchise agreement. In particular, it was the exclusivity clause that prevented any other business from selling their soft drink flavors within their territory. This clause meant that the bottler benefited from all sales efforts in their territory. The monopoly was in contrast to most business environments, where multiple suppliers might compete for consumer spending on products of the same brand. The businesses that did well recognized that a territory monopoly combined with the above success factors provided a tremendous business opportunity, even decades later.

The exclusive territory clause may have also been the reason why the soft drink franchisees made use of the direct-store-delivery method, known by the acronym DSD. Under the DSD method, businesses used their own trucks and employees to deliver their soft drink products to each retail store or outlet.¹⁸⁴ Each day, the driver had a route where he stopped at bars, restaurants, schools, grocery stores, convenience stores, gas stations,

¹⁸³ Dublin Dr. Pepper Museum document, Dublin, Texas.

¹⁸⁴ Xinlei Chen, George John, Om Narashihan, "Assessing the Consequences of a Channel Switch", *Marketing Science* 27, no. 3 (May – June, 2008): 401.

drug stores, and other retail establishments that sold soft drinks. The driver also often handled display activities such as stocking the shelves, set up of product displays, restocking vending machines, promotion displays and other activities related to the soft drink sales.

With the DSD method, the case study businesses exerted better control over the presentation of their products to the end consumer. Because their drivers stocked the shelves, they ensured there was sufficient product on the shelves and that the product display had a neat and attractive appearance. The bottler employees regularly met with store managers, and developed relationships that gained benefits such as additional store shelf space and participation in bottler sales promotions. For the case study businesses, the initial use of the DSD method was due to necessity. Both businesses started in relatively small cities, and both had to make deliveries with their own employees and equipment as this was the only option available. Over time, these businesses retained the DSD method, indicating that they found the method both beneficial and profitable.

Soft drinks are not the only industry making use of the DSD method. A 2008 study estimated that twenty-five percent of all supermarket sales are based on product delivered using the DSD method.¹⁸⁵ Examples of other industries where the DSD method dominates include snack foods, beer and bakery products. Each of these industries sell what are generally regarded as convenience products. Because demand for the product is not driven by a basic human need, intense marketing efforts are critical to sales. The DSD method will ensure that a store shelf is well stocked and has a pleasing presentation in order to take advantage of the impulse to buy a bottle of soda or a bag of chips. The DSD method continues to thrive in spite of studies that it found that it is more costly to

¹⁸⁵ Ibid, 401.

the manufacturer.¹⁸⁶ The DSD method is used by both franchisees and by manufacturers utilizing the branch plant business model.

Another critical factor derived from the franchise agreement was the small size of the territory, often only two or three counties in size. Small territories were not likely by design, but due to the nature of the soft drink product and the state of technology in the early years of bottling. When Coca-Cola began to establish franchisees in the early years of the twentieth century, transportation of heavy goods relied on railroads and horses. It was much more efficient for the manufacturer to ship the soft drink syrup or concentrate in barrels to the local bottler, and have the bottler handle the heavy ingredients such as water and glass bottles. Since there was a physical limit on how far a horse based distribution system could travel in a day, the franchise territories had to be small. The small franchise territory caused the soft drink bottlers' sales efforts to be concentrated. The pattern of small territories continued as other American soft drink manufacturers followed the Coca-Cola model as they built their franchise networks.

With the small territory and a franchise monopoly on sales of their soft drink flavors, enterprising bottlers seized the opportunity. The small territory forced them to focus on their customers and they developed methods that made them successful. Sometimes the ideas for new methods came from the soft drink manufacturer, but more often they were developed by the bottlers themselves. Through regional and national associations, bottlers shared their successful methods and they spread across the country. The second generation of Minges had up to seven sons working in the business. Their franchise territories covered tiny geographies but each was able to generate sufficient sales to make their territories viable.

¹⁸⁶ Ibid, 401.

Returning to the thesis question, was the popularity of soft drinks in America possible without the unique bottler network that evolved within the soft drink industry? As the major soft drink manufacturers expanded into markets outside of the United States, some franchised bottlers were used in regions of Canada and Europe. However, the franchise territories were much larger, and they were unable to replicate the success of the American bottlers. In Europe, it was much more common to use the branch plant business model. Coca-Cola owner Asa Candler wrote in the 1921 annual report that “We believe that the foreign field should be occupied by direct representation, owning plants, manufacturing and bottling our own product.”¹⁸⁷ The success factors present with the American franchisees were not feasible with this business model. Consequently, the per capita consumption of soft drinks in countries outside of the United States never reached the American levels. And as a direct result of the success of their franchised bottlers, the soft drink manufacturers were able to grow to the massive size we see today.

To view this conclusion from another perspective, we can look to the disastrous results when Coca-Cola dismantled their bottler network after 1980. Bart Elmore described the massive business failure when Coca-Cola executives decided they could be more profitable and exert more market control by running their own bottling network, named Coca-Cola Enterprises (CCE).¹⁸⁸ Hundreds of independent bottlers were bought between 1986 and 1998. By 2006, CCE experienced tremendous financial problems, with Fortune magazine ranking it as one of the top ten money losers with over one billion

¹⁸⁷ Mark Pendergrast, *For God, Country and Coca-Cola* (New York: Basic Books, a member of the Perseus Books Group, 2013), 157.

¹⁸⁸ Bartow J. Elmore, *Citizen Coke: The Making of Coca-Cola Capitalism* (New York: W.W. Norton & Company, Inc., 2015), 176.

dollars in losses.¹⁸⁹ Elmore attributes this disastrous result to Coca-Cola's violation of its own proven successful process of outsourcing this key element of the business.¹⁹⁰ By 2013, Coca-Cola evidently realized its mistake and began the process of refranchising territories to independent bottlers.

A combination of factors from two sources created the unique results for the soft drink industry. The soft drink franchise agreement, with its small and exclusive territory clauses, provided an environment for the business opportunity. And when a business could develop the success factors of family owned and managed, sizeable capital investment, creative marketing, a diversified product line, and a community presence, remarkably high soft drink sales were the result. Looking back, it is questionable if this success benefited American society, as today we see the adverse health effects of the high consumption of sugared soft drinks. From a business viewpoint, there is little question that these bottlers were very successful.

In summary, the tremendous soft drink sales achieved through the use of the business franchise model caused the United States to develop the high levels of soda consumption that we see to the present day. And as a result, the soft drink manufacturers were able to grow into the massive multinational corporations that they are today. Coca-Cola, Pepsi-Cola and Dr. Pepper were not successful until they developed a strong network of independent franchised bottlers. These franchised bottlers capitalized on the opportunities provided with the franchise agreement and were able to develop the success factors that allowed them to achieve remarkable levels of soft drink sales. Without this

¹⁸⁹ *ibid*, 299.

¹⁹⁰ *Ibid*, 283.

unique network of franchised bottlers, it is questionable whether soft drinks would have ever developed to be such a large part of American society and culture.

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