Coke vs pepsi in the twenty first century marketing essay

ASSIGN BUSTER

The article “ Cola Wars Continue: Coke and Pepsi in the Twenty-First Century” is about the “ love-hate” relationship between the two largest cola companies of America, as they fight with each other for shares of a $60 billion industry, while also fighting with the industry to increase and fuel growth for cola consumption. From 1975 to 1990 both companies achieved an average annual growth of about 10%, while consumption grew in the U. S. and worldwide, but a turn of events in the late 1990s threatened the companies with consumption of carbonated soft drinks (CSD) dropping for a consecutive two years and worldwide shipments were also slowing. The decline is thought to be from the consumer’s want for alternatives to CSD’s like sports drinks, bottled water, juices, teas, etc. The solution to this problem relies on both of the companies’ abilities to boost flagging domestic sales, venture into emerging international markets, broaden their brand portfolio for new streams of revenue and include non-carbonated beverages in their “ big plan”.

QUESTIONS:

Why has the soft drink industry been so profitable?

Since 1970 consumption grew by an average of 3%

From 1975 to 1995 both Coke and Pepsi achieve average annual growth of around 10%

American’s drank more soda than any other beverage

Head-to-Head Competition between both Coke and Pepsi reinforced brand recognition of each other. This assumes that marketing added to profits rather than eating them up.

Very large market share. 53% in year 2000.

Average 10. 65% net profit in sales for both Pepsi and Coke.

If this has been such a profitable industry, why have so few firms successfully entered the business over the last century? What are the barriers to entry?

It would be nearly impossible for either a new CP or a new bottler to enter the industry. New CPs would need to overcome the tremendous marketing muscle and market presence of Coke, Pepsi and a few others, who had established brand names that were as much as a century old. Through their DSD practices, these companies had intimate relationships with their retail channels and would be able to defend their positions effectively through discounting or other tactics. So, although the CP industry is not very capital intensive, other barriers would prevent entry. Entering bottling, meanwhile, would require substantial capital investment, which would deter entry. Further complicating entry into this market, existing bottlers had exclusive territories in which to distribute their products. Regulatory approval of intrabrand exclusive territories, via the Soft Drink Interbrand Competition Act of 1980, ratified this strategy, making it impossible for new bottlers to get started in any region where an existing bottler operated, which included every significant market.

In conclusion, an industry analysis by Porter's Five Forces reveals that the soft drink industry in 1994 was favorable for positive economic profitability, as evidenced in companies' financial outcomes.

3. Who are the buyers and suppliers? How much power do they have?

Buyers example such as supermarkets, food stores, convenience and gas, fountain, vending, and mass merchandisers. Suppliers example such as NutraSweet and Holland Sweetener.

Power of suppliers

The inputs for Coke and Pepsi's products were primarily sugar and packaging. Sugar could be purchased from many sources on the open market, and if sugar became too expensive, the firms could easily switch to corn syrup, as they did in the early 1980s. The suppliers of nutritive sweeteners did not have much bargaining power against Coke, Pepsi or their bottlers. NutraSweet, meanwhile, had recently come off patent in 1992, and the soft drink industry gained another supplier, Holland Sweetener, which reduced Searle's bargaining power and lowering the price of aspartame.

Furthermore, Coke and Pepsi effectively further reduced the supplier of can makers by negotiating on behalf of their bottlers, thereby reducing the number of major contracts available to two. With more than two companies vying for these contracts, Coke and Pepsi were able to negotiate extremely favorable agreements. In the plastic bottle business, again there were more supplier than major contracts, so direct negotiation by the concentrate producers was again effective at reducing supplier power.

Power of buyers

The soft drink industry sold to consumers through five principal channels: food stores, convenience and gas, fountain, vending, and mass merchandisers. Supermarkets, the principal customer for soft drink makers, were a highly fragmented industry. The stores counted on soft drinks to generate consumer traffic, so they needed Coke and Pepsi products. But due to their tremendous degree of fragmentation (the biggest chain made up 6% of food retail sales, and the largest chains controlled up to 25% of a region), these stores did not have much bargaining power.

Their only power was control over premium shelf space, which could be allocated to Coke and Pepsi products. This power did give them some control over soft drink profitability. Although these outlets captured most of the soft drink profitability in their channel, they accounted for less than 20% of total soft drink sales. Through other markets, however, the industry enjoyed substantial profitability because of limited buyer power.

4. How do the soft drink companies get away with charging $1. 00 for a product when the “ healthy” substitute (i. e. tap water) is free?

Americans consumed 23 gallons of Carbonate Soft Drink (CSD) annually in 1970 and consumption grew by an average of 3% per year over the next 30 years. This growth was fueled by increasing availability as well as by the introduction and popularity of diet and flavored CSDs. Through the mid 1990s, the alternatives to CSDs existed, including beer, milk, coffee, bottled water, juices, tea, powdered drinks, wine, sport drinks, distilled spirits and tap water.

Americans still drank more soda than any other beverage. At 60% – 70% market share, the cola segment of the CSD industry maintained its dominance throughout the 1990s, followed by lemon/lime, citrus, pepper, root beer, orange and other flavors.

5. Why doesn't the war escalate out of control? How do they keep the war within " bounds"? Who has been winning the war? And who has been losing?

In the very early years there was plenty of competition between small cola companies. Coke emerged as the strong leader and Pepsi soon followed. Up until recent there was minimal competition. Coke is winning the war as them has very high market share and strong marketing campaign.

A unique and globally appreciated product. Apart from Pepsi, coke has no strong competition. Coke had high profit margins by shifting some cost to bottlers. Globally recognized product that could be sold for a premium. Expanded manufacturing and distribution system that kept prices low. Pepsi is consider as losing the war as they always emulated most of Coke's strategic moves and from the exhibit percentage shown that coke is having advantage over pepsi.

6. How has the competition between Coke and Pepsi affected the industry's profits?

Competition between Coke and Pepsi has had the greatest affect on reducing industry profits. This competition was base on different elements: price war (pricing strategy), cost management, advertising and promotions. The cost management (vertical integrations, consolidations and synergies), product differentiation and marketing have become more important as growth slows

and market share becomes the key determinant of profitability. In foreign markets the product life cycle is in more of a growth trend them advantage in this area is mainly due to its establishment strong branding and it is now able to use this area of stable profitability.