

Coca cola brand

Business



What are the pricing strategies adopted by Coca Cola brand in the three key markets of India, China and USA? (15 points) 2. Should they have done anything differently? In which market and why? (5 points) 3. Was the price decrease the right move in India? Why? What were the consequences for both companies? (5 points) Coca Cola is one of the three largest carbonated beverage companies in the world, before PepsiCo and Ambev.

It greatly owes its success to its capability to adapt to completely different markets and cultures. It is one of the most experienced companies at tackling emerging markets as it derives more than 80 percent of its sales from outside the USA according to Emmet C. Dozer, president of the Coca Cola group in Africa and Eurasia. Indeed, Coca Cola's ongoing war with PepsiCo in the USA has reached a dead end due to the market stagnation and to the rise of alternative drinks such as juices and sports drinks.

Although it is not far from being over as the new battle is taking place from across the globe. Underdeveloped nations such as in the Middle East, Latin America or Africa are fast growers and the more these economies mature the more Coca Cola is spreading widely. However, the company has a varied market pricing strategies in the USA, China and India. We will focus on these three countries in order to analyze the overall pricing strategy of Coca Cola and its implementation in China and India. In 2001, the Indian market was composed by more than 70% of rural population.

This dominant part of the population had a much lower purchasing power and lower salaries compared to urban consumers.

The gap in India between the rural and the urban consumers was massive 10 years ago. Indeed, in the early ass's when Coca Cola decided to invest in India, not more than three bottles of carbonated drinks were consumed per year and seven in 2003 compared to 89 in China or 471 in Brazil. Today, the rural population represents 67% and the soft drink market “ is now 37% of the total market beverage”.

In order to penetrate the untapped market, Coca Cola had to undertake many pricing and advertising decisions. The first decision they made was to drastically reduce the price of their beverages.

The strategy they used is called a cost-plus strategy. This strategy ensures that all costs are covered before refits are calculated. In order to penetrate the market they had to adapt to the price locally. This decision was a two-step process. They first decided to drop the prices slightly by 10-15% following Pepsi in the north of India and decided to reduce the price by 25% nationwide in 2003.

This strategy motivated by cost-reduction also led them to reduce the size of their bottles in a mill container in order to target rural areas and price sensitive region. In addition to that, Coca Cola's generic promotional campaign entitled “ than mutual Coca-Cola” (or cool means Coca-Cola in Hindi) was huge success and made the sales boomed in rural areas and created an increase per capita consumption. In China, the strategy was very different when Coca Cola decided to enter the soft drink market in the early ass's.

Their first goal when the company was established in 2003 was to consolidate their position in big and medium sized cities. Indeed, Coca Cola in opposition to India chose not to invest and implement its company in rural areas due to their very low incomes.

In 2000 Chinese rural per capital income was less than \$272 in comparison to \$757 in urban cities like Shanghai or Beijing. They targeted bigger urban cities for their higher salary and to convince these regions that the product value justified the price.

Indeed, Coca Cola's pricing strategy motivated by value building led them to be the very first company to advertise on CATV the Chinese national Television channel. In 1999, 9, 86 million Yuan (\$1 , 19 million) was spent on TV advertising, making Coca Cola the foreign company with the largest expense in advertising. Their goal was to create loyalty created by a high level of marketing and TV campaigns.

Coca Cola had then created a strong brand recognition and urban Chinese consumers didn't hesitate to pay more for Coca Cola because of what it represented.

However, local companies took advantage of Coca Cola's preference for urban cities and invested in Chinese rural areas. Wahoo (Future Coke), the third largest Cola Company in China succeeded in rural areas because they only focused on low priced products for rural consumers. In 2003, Coca Cola sold 2, 2 million tones per annum, Pepsi and Future Coke 662, 000 tones. Nevertheless another important fact to consider in comparison to India is the

rapid population to 56% in 2006. Thus, the rural areas were attractive 10 years ago but not so much anymore.

Indeed, Coca Cola seemed to have adopted the right strategy. Finally, in the USA where the carbonated soft drink market is mature, Coca Cola's strategy is mainly based on stealing from its biggest rival PepsiCo in order to gain market share. This competition based pricing strategy creates a huge pressure on prices and massive investments in marketing and advertising to maintain high customer loyalty. This strategy motivated by competition leads both PepsiCo and Coca Cola to use direct price and indirect price discrimination. Direct price discrimination is "based on distribution channel segmentation".

In other words is based on the location and the places where Coca Cola bottles or cans are sold.

Thus, restaurants with fountain drinks and gas station all have different Coca Cola prices. Indirect price discrimination is based on the margin supermarkets want and the pressure of private labels to undercut the price. Thus, Wall-Mart doesn't sell Coca Cola for the same price as Cost or Target. These tactics as well as keeping track of the competitor's prices and significant advertising investment are the only way for Coca Cola to remain competitive.) Coca Cola could have been really different in China.

They could have targeted rural and urban population with different pricing strategies in these two regions. The rural areas were left out when Coca Cola decided to enter the Chinese market. Now, Future Coke created in 1998 is now China's biggest beverage maker and the top 5 drink producer in the <https://assignbuster.com/coca-cola-brand-essay-samples/>

world. Future Coke position themselves as a patriotic brand bringing happiness to the lower income population. Because they are a domestic brand they are able to have cheaper advertisement prices as well.

In other words, Coca Cola missed an amazing opportunity by only targeting urban areas in China.

3) The price decrease was a right move for India in the short term to gain market shares for the simple reason that it was the only move possible at the time. Indeed, in the early ass's the Indian market was mainly composed of rural population. Which meant, low incomes and serious per capital consumption issues. Lowering the prices to adapt to the Indian population and the local prices was smart because it allowed both Coca Cola and PepsiCo to penetrate new cities that were price sensitive and consumption beverage.

However this strategy in the long term will undoubtedly harm their overall reputation.

When Indian's market reaches maturity, increasing prices too rational level will be strategically challenging and getting the brand's value back to the level where it is meant to be will be impossible.