

# Porter's five forces analysis on cola wars case essay sample

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The threat of new entrants in the soft drink industry is low. Barriers to the CSD industry are extremely high because customers have high brand loyalty towards to either Coke or Pepsi. As the case mentioned, Coke and Pepsi spend millions of dollars on advertising even though they are already the dominant companies in the industry. Thus, heavy investment on advertising and promotions is necessary for any new entrant to change persisting customers tastes and to gain brand recognition.

#### Bargaining Power of Suppliers

The bargaining power of suppliers is low. Most of the materials for producing soft drink are commodities such as sweetener, aluminum cans, and plastic bottles etc. Coke and Pepsi have the freedom to select the suppliers. They face low switching cost, which allow them to change its suppliers easily without any price difference. Thus, the suppliers of the commodities have virtually no bargaining power over pricing.

#### Bargaining Power of Buyers

The bargaining power of buyers is weak. Buyers of Coke and Pepsi consist of both direct buyer and indirect buyers. Bottler, the direct buyer, is locked into contracts that give concentrate producers the power to set prices. And indirect buyers like supermarkets, convenience stores, restaurants, and vending are highly fragmented. Consequently, they don't have much power to negotiate lower price offers from Cola or Pepsi.

#### Threat of Substitutes

The threat of substitutes such as bottled water, juice, and sports drinks is relatively high. The increasing threat is due to the shift in consumption patterns. As customers become more aware of the obesity and health concerns brought by the soft drink, they tend to consume non-carbs products especially when there is very low switching cost. However, Coke and Pepsi start to innovate their own non-cabs drinks and diet sodas in order to fight against this threat.

#### Rivalry Among Existing Competitors

The rivalry among existing competitors is low since the CSD industry is consolidated with Coke and Pepsi, making them interdependent. In turn, they avoid competition on price-cutting, which reduce profitability for both competitors. Instead, they compete aggressively on product innovations, advertising, differentiation, and global expansion strategies. This non-price competition allows both competitors to charge higher prices and accelerate company profitability.

#### Conclusion

Based on Porter's Five Forces analysis, both Coke and Pepsi have great profit potential since four out of five forces are low. The threat of substitutes is the major challenge to both firms. As long as Coke and Pepsi continue to pursue multiple strategies to resolve the threat, they will continue to sustain its competitive advantage in the CSD industry. However, I would still expect that the Cola Wars would continue in the future.