Coca cola around the world

Business, Marketing

COCA-COLA AROUND THE WORLD CASE STUDY CourseInstructor's NameInstitutionDateQuestion 1: Pricing Strategies in IndiaCoca-Cola has used different pricing strategies to cope with the situation in the Indian Market. In the early 1990s, the company used low pricing strategy, similar to rival Pepsi. After gaining a significantly big market share relative to the low prices of the companies' brands in America, the company decided repositioning itself as a premium brand consequently increasing its prices. For instance, in 2003, the company slightly dropped the prices of its carbonated drinks Coke, Limca, Thum Up, Fanta and Sprite, by 10-15 percent particularly in the Northern part of India. This was in response to the rival company Pepsi's move to drop prices for its products in a bid to acquire a bigger market share. As at 2003, the two companies had almost equal market shares, and both had launched a 300ml bottle in the market. Further, Coca-Cola reduced prices of its soft drinks by 15-25% in India and all over the world. The move was aimed at keeping with the company's goal to make its products more affordable thereby promoting regular consumption. The company focused its low pricing strategy on smaller 200ml bottle, which it introduced all over India at a low price of RS. 5. In addition, in 2002, Coca-Cola combined the low pricing strategy with an aggressive generic promotional campaign. The generic campaign involved building up a brand preference for the company's flagship Coke brand among young Indians in the rural target market, referred to as India B with the main objective of growing the soft drinks category and creating brand preference for Coke. The generic campaign used the slogan " Thada Matlab Coca-Cola" (translated to mean cool means Coca-Cola in Hindi). The campaign suggested that any cold carbonated drink is not suitable for an Indian consumer; it is only the cool of Coca-Cola. This unique low pricing strategy combined with the aggressive generic promotional campaign greatly improved the Coke brand into the third position in the Indian rural markets. Pricing Strategies in ChinaCoca-Cola adopts a high pricing strategy for its Chinese market. The company concentrates its activities in small and medium-sized urban areas. The Chinese Wahaha group corporation is the largest beverage company with its Future Coke and other drinks. Future coke is the third largest cola in Chinese market. Other competitors include Pepsi, Fenghuang Coke in Guangdong and Yanjing Coke in Beijing. Wahaha with its cola brand that tastes closer to Pepsi brand outshines Coca-Cola in the rural areas. The packaging of the company’s Future Coke resembles that of Coke, and it has a patriotic appeal to the consumers. In addition to its focus on rural areas, the company fixes its future coke brand at lower prices than Coca-Cola’s Coke ($0. 06 to 0. 07$). This low pricing strategy and focus on rural consumer adopted by Wahaha Group Corporation makes the company popular in small cities, the poor interior regions and the Chinas wide countryside where saving a few pennies is highly regarded. However, in the highly developed big cities, Coca-Cola’s Coke brand dominates the market. A survey conducted in 2003 showed that Coca-Cola had 24 percent share of the soda market with Wahaha’s Future Coke had less 12 percent. Coca-Cola China maintains its relatively high pricing strategy in both the rural & the urban markets in China but devotes significant finances to advertising. In the past, the company mainly concentrated on outdoor advertisement in China. However, in 2009, it shifted focus to advertisement in television. The company advertising expenditures have increased sharply over the years. For example in 1999, the total advertising expenditures rose by 26 percent compared to 1998, making the company advertising expenditures higher than any other foreign corporations according to a survey conducted in 2000. In addition, the company was the first foreign company to advertise in China Central Television (CCTV) in 1984. CCTV survey reported that the company's high advertisement spending and Chinese long history of advertising were attributed to the company's establishment of its soft drink- brand as the most recognized soft-drink brand. The logic behind Coca-Cola's concentration in Chinese urban market is the income variation between urban people and rural people. In 2000, the average urban and rural Chinese earned RMB6, 264 ($757) and RMB2255 ($272) respectively, showing that urban people earns three times more that rural residents. This means that urban residents can afford Coca-Cola products regardless of the high pricing strategy, and this explains the company's continuously growing market. In addition, the urban residents are willing to pay more for Coca-Cola due to its brand equity. The company's consistent spending on advertising has created strong brand recognition to the urban residents. In 2000, there were claims that the company was considering lowering its prices due to pressure from rival companies but given the high market share the company enjoyed at 70% and with the domestic rival Wahaha share at 10% percent, the company dismissed the claims. Thus, with the high pricing strategy and focus on urban areas, the company has at the past discriminated prices for its products depending on the characteristics of the individual urban market. For example in 2000, a bottle of Coca-Cola cost RMB1. 90 ($0. 23) in Beijing compared to

RMB2. 30 ($0. 28) in ShanghaiMarketing Strategies in the United StatesContrary to the Asian markets, the carbonated soft drinks in the United States markets is mature. The sales growth in the industry is influenced by the level of advertising and product innovation. Coca-Cola products prices are usually low due to high competition from Pepsi. This rivalry also forces the companies to devote significant investments in advertising in an effort to create and maintain their brands loyalty. The only way for Coca-Cola to increase its market share in the mature USA market is to employ strategies to steal the rival’s share. Therefore, Coca-Cola engages Pepsi in fierce fights over prices, suppliers, retail space and most crucial the taste buds of consumers. Coca-Cola, as well as Pepsi, engages in price discrimination strategies in order to obtain more value from the consumer. Coca-Cola uses direct price discrimination in the US market. The direct price discrimination is based on channel of distribution and segmentation. Drinks are sold at different prices in supermarkets, gas stations and restaurants although the adjustment costs on packaging and distribution are not proportional to the variation in prices in the three mentioned retail outlets. Restaurant customers are the most price-insensitive since they almost compulsorily require taking meal with a drink. Buyers at gas stations are impulse buyers and are, therefore, less price sensitive than family shoppers who purchase lots of drinks in supermarkets for home consumption. Consequently, the company charges higher prices for the same drink in restaurants and gas stations than in supermarkets. Question two: Coca-Cola could increase its market share in China and United States markets if it adjusted its pricing strategies with respect to the competitor’s strategies. In China, Coca-Cola concentrates its sales in the big cities (same as foreign rival Pepsi) where residents earn significantly higher incomes compared to rural residents. Since the companies prices are the highest compared to local rivals such as Future Coke, the rivals with low price strategies take advantage of this vast, rural market to become key players in the Chinese market. As Zhang Huiming an economic advised back in 2000, Coca-Cola and other foreign and domestic companies could increase their gains by catering for the unexploited vast rural areas instead of consolidating their positions in urban areas. Urban population is increasing in China, implying that Coca-Cola will increase its sales from the highly paid urban people. However, it will take some time before the rural market loses the attractiveness and for the meantime, Coca-Cola should venture into this market by lowering prices for rural consumers. Coca-Cola uses direct price discrimination in the US. However, it could successfully use indirect price discrimination through its strong brand name. The company could use its brand equity that enables it to raise prices without necessarily losing customers. Additionally, the image of Coca-Cola drinks is perceived as representing higher quality compared competitors’ products. Therefore, the company could vary its prices in USA market as long as it can maintain high customer loyalty. Question 3: Decrease in price in the Indian market was necessary for Coca-Cola to maintain competitive advantage. Firstly, majority of the Indian population live in rural areas and are obviously lower income earners compared to the urbanest residents. Subsequently their purchasing power is low. In 2001, rural Indian Population constituted 72. 2% of the total Indian population. The Indian market for carbonated drinks was adversely affected by a very low per capita consumption due to this rural market. To increase sales, Coca-Cola had to make its products affordable to stimulate demand from this vast rural population. Secondly, in 2003 the close rival company Pepsi had lowered prices in an effort to gain market share from Coca-Cola with respect to the 300ml bottle that was already selling in the Indian market for both companies. Since the carbonated drinks offered by the two companies are close substitutes and whose difference is largely perceived rather than real, and also considering the weak market for carbonated drinks at that time, Coca-Cola had no option but to follow Pepsi’s low price strategy. Otherwise, it could have lost its rural market share to the low price Pepsi product. The effect of Coca-Cola act of price reduction in response to Pepsi’s similar earlier act was a price war. Pepsi was forced to reduce its price further. The low pricing strategy adopted by the two companies also raised the carbonated soft drink market to nearly 37% as at 2003. Additionally, Coca-Cola Coke brand ranked third in the rural market. ReferenceHota, M. (2009). Coca-Cola around the World-To Price or Not to Price. 1st ed. IESEG School of Management, pp. 1-9.