

# The cola oligopoly essay sample

[Literature](#), [Russian Literature](#)



An industry structure with a small number of large firms producing products that ranges from highly differentiated to standardized is an oligopoly. The world's soft drink market is dominated by two main players; Coca Cola and Pepsi Cola. Despite the fact that Coca Cola was founded almost 80 years before Pepsi Cola, they have both become the leaders in the soft drink market. Even though they produce beverages other than cola, they have been successful throughout their existence because of their names and their ability to promote their products.

A focus on Shanghai, China, offers a clear understanding of the way these companies work, think and act. Coca Cola being 'The Real thing', more than a century old, 'Always Coca Cola', considering their past and their methods of being successful in the market, which as they say, has never changed. Pepsi, 'The Challenger', even now poses as the brash, young upstart and is to be the drink for the younger generation. Shanghai is a new, big, and major marketing area for many companies including the soft drinks market, Therefore the clash between Coca Cola and Pepsi Cola can be seen right when it starts and how it is developing with time.

In order to understand these two companies some research helped me answer the entire question about this war, do Pepsi Cola and Coca Cola act in an oligopoly. This research has been done as reliably as possible by reading only sources other than those written by authors of the two companies, or reading reviews on magazines about the situation of the companies in China and around the world. Nevertheless, it is never enough to count only on documentary resources, therefore interviews with the Marketing Managers of

Pepsi Cola and Coca Cola, Mr. Tan and Mr. Summata, gave a better sense both sides of the conflict.

Although interviewing the oth sides of the struggle and reading documentary reviews never gives the full picture, because of the prize that both of them want to win, the costumers. Therefore, a survey questioning different age groups around Shanghai, gives a better understanding of Pepsi Cola and Coca Cola within an oligopoly. Moreover it is important to look at the firms' history in order to see their development throughout the years, and what led them to operate in an oligopoly. History In May 1886, Doctor John Stith Pemberton of Atlanta, Georgia invented Coca-Cola.

It was he who first scripted "Coca-Cola" into the lowing letters, which has become the famous logo of today. The soft drink was first sold to the public at the soda fountain in Jacob's Pharmacy in Atlanta on May 8, 1886. About nine servings of the soft drink were sold each day. Sales for that first year added up to a total of about \$50. The funny thing was that it cost Pemberton over \$70 in expanses, so the first year of sales were a loss. Until 1905, the drink, marketed as a tonic, contained extracts of cocaine as well as the caffeine-rich kola nut.

By the late 1890s, Coca-Cola was one of America's most popular fountain drinks. With another Atlanta harmacist, Asa Griggs Chandler, at the helm, the Coca-Cola Company increased syrup sales by over 4000% between 1890 and 1900. In fact advertising was an important factor in Pemberton and Chandler's success and therefore by the turn of the century, the drink was sold across the United States and Canada. Around the same time, the

company began selling syrup to independent bottling companies licensed to sell the drink.

Even today, the US soft-drink industry is organized on this principle of advertising and promotion, it is important to emphasize, as we will see later that this is one of the most important factor of ligopoly. Today, products of the Coca-Cola Company are consumed at the rate of more than one billion drinks per day. Pepsi-Cola was created in the late 1880's by pharmacist Caleb Bradham. PepsiCo Inc was founded in 1965 by Donald M Kendall, president and chief executive officer (CEO) of Pepsi-Cola and Herman W Lay, chairman and CEO of Frito-Lay, through the merger of the two companies.

Herman Lay is chairman of the board of directors of the new company; Donald M Kendall is president and CEO. With sales of \$ 510 million and 19, 000 employees, one of the major products produced was Pepsi Cola (formulated in 1898). These histories of the two companies lead them to the new infant market of Shanghai. Coca Cola originally entered the Chinese market in 1927 but left in 1949 due to the new Chinese government regulations. In 1948, Shanghai became the first market after the U. S to post annual sales of more than one million unit cases.

In 1979 it came back into the Chinese market, following the introduction of China's open- door policy, with a shipment of 30, 000 cases from Hong Kong due to the fact that they couldn't open their own Coca Cola factories in China. Most of the Coca Coal investments in China since 1979 have focused on pgrading existing Coca Cola bottling plants and building new production facilities. By now Coca Cola has more than 24 bottling plants. Pepsi Cola only

entered the Chinese market in 1982 after having several problems finding the proper joint venture that would suit them.

After battling for it for 3 years while watching Coca Cola's success in China they were finally ready for another war. Pepsi Cola has 14 plants around China. The plant in Shanghai was opened between the years of 1990-92. Although Pepsi Cola wasn't the first in the market, its aim is to be number one as they keep on growing from day o day. After understanding the history of both companies now it will be easier to understand their market structure, oligopoly, and the theory behind it.

The oligopoly theory: An oligopoly is characterized by a few firms, the market is likely to be dominated by a small number of large sellers. In general, entry of new firms into an oligopolistic industry is difficult but possible. The theory presents how firms should act in an oligopolistic market. Studies of oligopolistic markets have shown that individuals firms can use various different kinds of behavior patterns. However, here are some features which are common to most oligopolistic markets, it is these features which economic models of oligopoly must be able to incorporate.

Non-price competition, in a perfect competitive market the main competition is on the price, although in an imperfect competitive market, which is oligopoly, price is often not the most important in the competition process. Each firm usually forms its own strategy according to the market. Firms produce the product, which depends on the consumers; the product can either differentiate or be homogeneous to its competing product. A price is

usually set by the price leader and the firms do not compete on it and therefore it hardly varies.

Promotion is the key in oligopoly because this is the thing that in the end actually draws in the costumers. The last factor is where and how the firm distributes its products, also where are the factories, plants and the transportation of the product as this is a main part of the total costs. One model of oligopoly was developed in the late 1930s by Paul Sweezy in the USA and R Hall and C Hitch in the UK. Any theory on oligopoly must make the comparison between one firm and another, eaning the reaction of one firm to the other.

The kinked demand curve model assumes that there will be asymmetrical reaction to a change in price by one firm; therefore the kinked demand curve actually shows why oligopolistics do not change their price. Oligopolistic firms usually compete because of the fact that the products made by them are substitutes, and this is one of the main reasons why firms will not tend to change their prices. This is called the substitution effect: part of the change in quantity demanded of one good when price changes which is caused by the consequent change in relative prices.