Cola wars continue coke and pepsi in 2010 case study examples

Business, Company

Introduction

Basing on history, in a period of over one hundred years ago, Coke and Pepsi have been competing to have a substantial share of the world's beverage market. The strongest battle in this market or what is referred to as " the cola wars" was seen in the fight for the seventy four billion U. S dollar CSD industry in the U. S (Yoffie and Kim 1). In a cautiously waged competitive fight that took place in a period starting from the year 1975 up to the middle of the 1990s, Coke as well as Pepsi obtained average annual income growth of about ten percent, as there was a constant increase in the United States and global CSD consumption in each coming year.

However, things started to change in the 2000s. There was a decline in the U. S per-capita CSD consumption beginning from the early 2000s. By the year 2009, on average, each American took forty six gallons of CDSs annually and this level of consumption was the lowest since the year 1989. Simultaneously, both Coke and Pepsi experienced their own challenges. On the side of Coke, this company suffered a number of operational impediments. Pepsi, on the other hand, planned a new, " aggressive course in alternative beverages snack acquisitions' (Yoffie and Kim 1).

While the cola wars have gone on being fought in the twenty first century, these companies face new challenges. Several questions need to be answered in regard to enabling Coke and Pepsi to remain being competitive in the market. Some of the questions that need to be answered are that; could Coke and Pepsi improve diminishing domestic CSD sales? How can these companies compete in the non-CSD class that is growing which demand different brand strategies, bottling and pricing? What needs to be done in order to make sure there is sustainable profitability and growth? This paper proposes appropriate measures that need to be taken and how to implement them in order for Coke and Pepsi companies to remain competitive in the market and to sustain their profitability and growth and the face of the challenges that are coming up.

Background

Both Coke and Pepsi have been engaging in competition since their inception and have in turn been obtaining substantial market shares. However, new challenges started to come up in the course of the late 1990s which brought in the possibility of having long-term shifts in the marketplace. Even if the American people went on drinking more CSDs as compared to any other soft drink, the domestic consumption in the United States started to fizzle and that " stood in contrast to annual growth rates of 3% to 7% during the 1980s and early 1990s" (Yoffie and Kim 9).

The change in the consumption patterns were attributed to the increasing connection between the CSDs and the health concerns like nutrition and obesity (Rosie 1). A study conducted by the U. S Government gave out a suggestion that imposing a 20 percent tax could bring down the level of the sugary drink calorie intake by about forty nine percent per day per person in the U. S. By April 2010, twenty nine states were imposing taxes on the sodas and twelve more were considering to take a similar measure. Moreover, many consumers began to consider the " high-fructose corn syrup" as not being natural and not healthy. These greatly affected both Coke's and Pepsi's sales. It was even indicated in the Coke's 2009 annual report that consumer's concerns about obesity and their health was the leading risk factor to its business operations (Yoffie and Kim 9).

Having the CDS sales going down, both Coke and Pepsi tried to deal with this situation by persuading their customers through becoming innovative and intensifying their marketing campaigns. For instance, Coke came up with a ' Freestyle soda machine' in the year 2009 which could facilitate creation of various types of custom beverages. In addition, this company also emphasized more on the promotion of its brands including " spending $230 million in advertising for its flagship Coca-Cola drink" (Yoffie and Kim 9). The company also increased its expenditure on sponsorship and international marketing. On the other hand, the Pepsi Company engaged in redesigning its logo in the year 2008 " with a three-year rebranding plan that could cost over $1 billion to rejuvenate its image" (Yoffie and Kim 9). The company put its focus on boosting the overall portfolio of the company as being a beverage and snack company. However, the market surveys that were conducted about brand loyalty gave an indication that a larger number of consumers had a preference for Coke over Pepsi as being their desired CSD brand toward 2010 ((Yoffie and Kim 9). This was a sort of impediment for the Pepsi Company especially when it is considered that it had narrowed the gap substantially in the course of the late 1990s.

The companies also saw product mix expansion as being another means of growth. For instance, the year 2009, ' diet sodas' market share increased to

30 percent from 24 percent ten years earlier. Although some success was achieved with diet drinks, both Coke and Pepsi came to a realization that growth would come from non-carbs" and bottled water (Yoffie and Kim 10). The " non-carbs" is a category which included " juices and juice drinks, sports drinks, energy drinks, and tea-based drinks" (Yoffie and Kim 10). It is reported that, in the year 2009, as on one hand " the CSDs accounted for 63% of U. S non-alcoholic refreshment beverage volume (down from 81% in 2000), the remaining volume was made of bottled water at 20% (up from 7%) and non-carbs at 17% (up from 13%)" (Yoffie and Kim 10).

Measures to be taken to Sustain Growth and Profitability and their Implementation

Basing on the fact that the U. S domestic market is diminishing, both Coke and Pepsi should go on reducing their reliance on this market and seek to expand in the emerging markets, especially in Eastern Europe and Asia. These companies are supposed to capitalize on the reduced trade barriers and utilize their marketing competence to set up footing in these regions within the earliest time possible. Taking the case of Coke, which has already ventured in the international markets to a substantial level, the company stands a good chance and has an early advantage following the assistance it obtained from the U. S in setting up sixty four bottling plants abroad in order to facilitate supply of Coca-cola to the American soldiers in the course of the Second Wolrd War. Since Coke has facilities already set up and the potential customers having awareness about their brand in the Asian as well as European nations, entry into the nearby upcoming markets can be easy. This company can start entering into these emerging markets by transporting their products from the factories that are already there before investing money in establishing new plants in these nations. On the hand, considering the case of Pepsi, this company derives about a half of its sales from the U. S market. However, considering that the domestic market is flattening, the company should take a move to focus on its overseas development. The company has to make its brand value stronger in the overseas markets and this can be realized through engaging in marketing efforts such as sponsoring some main local events.

Focus need to be put on such countries as China and India since in these countries, the middle classes are growing. Both the Coke and Pepsi companies should seek to introduce their existing products as well as new products that are designed to meet the specific needs of the consumers in each region. To this point, the two companies have made some efforts to meet some customer needs in the Chinese market. For instance, Coke has engaged in introducing Sprite tea and the Pepsi Company has created products which have some Chinese herbs with an intention of appealing to the local taste (Yoffie and Kim 6). It is also important to point out that there are expectations of the retail value of juice in China to increase by over ninety percent in the next few years. Following these developments, this can present a great opportunity for both Coke and Pepsi to capitalize on and come up as chief tea producers in the region. This can be a kind of diversification that can assist the companies to withstand the changes that they are facing in the domestic market.

Moreover, there is need to take necessary measures aimed at increasing CSDs consumption in the nations where the Coke and Pepsi products are already being sold. There can be replication of the marketing campaigns which led to great success of these companies in the domestic market in the new markets which have not been affected by the increasing health concerns that have contributed to the disruption of the U. S market. A marketing campaign which is tailored to the people of such regions as Africa, Asia and the Middle East which puts focus on the CSD products like ‘ lifestyle’ enrichment could lead to an increase in the international CSD consumption. This will serve to make up for the decrease in the domestic consumption of these products.

In addressing the issue of how to compete in the growing non-CSD category which is corresponding to the flattening of CSDs, it is important to point out that both Coke and Pepsi have to go on introducing non-CSD products and make a shift to make sure the focus of their marketing campaigns is put on their companies as being producers of beverages and not as the carbonated products manufacturers. These companies are able to do this since they have been known for a long time as innovators. The spirit of innovation enabled these companies to gain profitability and maintained it in spite of the fact that there were shifts in the preferences of the consumers to diet CSDs and non-colas in the course of the 1960s (Yoffie and Kim 6). These two companies are already known as being leaders in the production of the big non-CSD brands such Dasani, Gatorade and Aquafina among others (Yoffie and Kim 10). Both Coke and Pepsi have been engaging in acquiring other firms as a way of diversifying in the non-CSD market. The companies have to continue engaging in acquiring the potential competitors before they turn out to be actual threats.

Conclusion

In conclusion, in spite of the fact that the CDSs domestic demand in the United States is flattening and there is an increase in the popularity for non-CSDs; there will be sustainable profitability and growth for both Coke and Pepsi if these companies will put their focus on the global markets and expand them. This will also be realized through continual development of new products that will be designed to meet the consumer needs and to be in line with the current trends. These companies are in a position to implement these measures effectively because of the power to innovate that they have shown in the entire period they have been in operation and also because they are established firms in this industry.

Works Cited

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