

Cola war case study example

[Business](#), [Company](#)



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Introduction

Carbonated Soft Drinks (CSD) have a long history. Carbonated soft drinks have dominated the non-alcoholic beverage market for more than half a century. Coca Cola and PepsiCo are the two main competitors in this industry. Over the period of last 50 years Pepsi and Coke have enjoyed duopoly in the CSD market. Apart from the exception of one Dr. Pepper product, Pepsi or Coke always filled up the top ten selling brands in the CSD business. Coke and Pepsi have battled against each other fiercely to gain market share and brand loyalty. If in some decades Pepsi succeeded, Coke succeeded in other decades. It has been a roller coaster ride for both the companies. However, the Cola war is taking a new turn now. The sales volume is decreasing continuously for CSDs in last 5 years. The profitability is on the decline as well. Non-carbonated products are now the preferred choice for many consumers. In this new scenario Cola war between Pepsi

and Coke is becoming more interesting. This essay will look at various aspects of the macroeconomic condition of the market and at various aspects from the perspective of both the companies to understand how they are placed as a company for the uncertain future.

Strategy Analysis

The five forces of competition in the bottling industry include rivalry, brand equity, new entrants, buyers and substitute products (Ann, 2011). Bottling industry was independent from Coke and Pepsi till last decade. From 1990s, Pepsi and Coke started buying out some of its bottling plants. Currently both the companies own majority of bottling operations. So bottling is no longer a separate industry from the concentrate manufacturers. 5 Forces analysis of Coke and Pepsi by and large applies to the bottling industry now because CSDs as an industry is dominated by these two companies.

Brand equity is another competitive pressure with both the companies trying hard to draw in new customers and increase sales. Both the companies enjoyed good brand image for decades but that seems to be taking a backseat. Both the companies need to revitalize its brand building exercise. New entrants are not a very strong threat to the companies as both Pepsi and Coke are quite entrenched in the market and have created a cartel with bottlers to make the entry of newcomers increasingly difficult. Moreover, they own majority of the stakes in bottling companies. Another factor for a new entrant not to enter the market is that the margin of CSD business is very low and initial investment is quite high (Puravankara, 2007).

Both the companies sell their products to convenience stores, grocers and discount stores mainly in large volume but with the market demand having

come to a saturation point the bargaining power of the buyers is likely to increase. In fact, in the last decade the buying power of buyers like Wal-Mart, Target and other have increased so much that they can now command price bargaining with bottlers and Coke/Pepsi.

Substitute products like coffee, tea, energy drinks, bottled water put competitive pressure on the soft drink duos as there are many people who in order to avoid sugar are taking to coffee and tea. Substitutes will continue to grow and CSDs will continue to fall until and unless Coke and Pepsi can come up with some CSD product which is perceived as a healthier option by the customers than substitutes.

Financial Analysis

Return on Equity for Coca Cola remained fairly same in the last four decades. It always hovered around 20-25%. The ROE increased for the company in the mid-nineties to an all-time high of 55% in 1995. However, the ROE again declined 27.4% by 2009. For Pepsi, over the years the return on equity has increased slowly but steadily. In 1975, the ROE for Pepsi was 18.0% and it continuously improved over the next three decades to reach a level of 42.5% by 2006. However, since 2006 it's ROE is decreasing mainly owing to reduction in sales revenue.

Coke has better operating margin from its international business than its US business almost from the beginning. In USA, Coca Cola always faced huge competition from PepsiCo from the very beginning of its operation. Especially the margins hit rock bottom in the 1970s to about 11% due to a very fierce price war between Pepsi and Coke over gaining market share. Since then both the companies understood that price cut hurts both the companies and

stopped price war against each other. Since then the operating margin of Coca Cola in US has improved a lot. Currently, Coca Cola enjoys almost a 20% operating margin from its US operations. In the international business of Coca Cola the operating margin is much better because of two main reasons. Firstly, Coke in most of the international locations only supplies concentrate to the bottlers and gets almost a 35% operating margin from that. Secondly, in about 200 countries of Coke's operation, the competition in some of those countries is comparatively less than that of USA and so keeping a healthy margin in those countries is easier for the company.

Net profit for Coke and Pepsi was very low during 1970s because of the pricing war between the two companies. For Pepsi it was around 3%. On the other hand, for Coke it was at 7%. Since then both the companies have taken measures to improve its operation, improve the supply chain and use better negotiation with buyers, raw materials suppliers and bottlers to improve its net profit margin (Ferrati, 2012). Currently Pepsi enjoys a net profit margin of around 10% whereas Coke owing to a better supply chain and manufacturing practices enjoys almost a 22% net profit margin.

Marketing Analysis

4Ps of marketing are product, price, place and promotion. Coca Cola and Pepsi are the market leaders in CSDs in which the overall revenue is facing a decline. Both Pepsi and Coca Cola have diversified its portfolio but still their main focus is on the CSD products which have earned maximum revenue and profit for both the companies and will probably continue to do so in the coming years. However, this is the time when both the companies should start thinking about strengthening its product portfolio with products which

are evolving as substitutes of CSDs so that when that market becomes big Pepsi and Coke are ready to dominate that market as well (Kumar, 2012). The price of the major CSD products of both the companies at this point of time seems to be fine with the buyers but other products of Pepsi and Coke like the packaged water is very price sensitive and its sales declined as soon as the recession hit. Consumers shifted to low priced local made options. CSDs are products which encompasses all age group and all ethnical and racial segments. Energy drinks are mostly targeted at sports people and people enthusiastic about exercise and sports. Promotion of the products should be everywhere. From the point of sales to the internet sites, everywhere the promotion is required to bring in more customers. As there is no differentiating factor from one product from another so product promotion is a very important parameter and Coke/Pepsi needs to spend a hefty amount of money for promotion in coming days as it has done in the past.

Human Resource Strategy for Coke and Pepsi

Coca Cola and Pepsi both do not have very clean image on human resource parameters. In fact, Coca Cola in USA is known for its poor labor relation practices and human rights abuses. Coca Cola has faced many lawsuits from its employees and labor unions for using unfair labor practices. In most of the cases Coca Cola won such cases using its monetary power. However, over a period of time it was exposed that Coca Cola is using not very good labor and human rights practices internally. Same can be said for PepsiCo as well. PepsiCo also faced lawsuits in different countries for violating basic human rights and safe operating practices. For example, PepsiCo plant

contaminated the ground water by disposing the polluted water without proper treatment (Anjum, 2013).

What both companies require is major brand building and image shifting strategy in HR space. Coca Cola has already set in motion a 24/7 employee grievance cell to tend to the grievances of employees across the world. Coke Board of Directors has made sure that the grievance cell and HR dispute resolution department can work independently from the Coke management. Similarly, PepsiCo has launched marketing campaigns for a brand building exercise in some of the countries of its operation. It is trying to project the company as a ' Responsible Corporate Citizen'. Similarly Coke is also splurging a lot of money in support of ' Green Environment' movements. From HR perspective both the companies will continue their efforts to improve the internal HR practices and refurbish their image to the outside world.

Conclusion

Cola war is one of the most old product wars in the industry. It has seen almost all facets of industry rivalry. Many a time analysts have written off one company or other but both came back strongly every time. Coca Cola and Pepsi have almost become synonymous with each other as well as with cola products. Now both the companies are at another critical juncture. The sales of CSDs are dropping significantly, the profit margin is shrinking and non-carbonated product substitutes are replacing the cola products more and more with every passing day. This adverse scenario for both these CSD giants will provide us with another chance to see how those two companies come winning out of this unfavorable condition.

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