

Coca cola vs pepsi



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Since the 1950s, the rivalry known as the “ Cola wars” has been legendary. Both Coca-Cola and Pepsi started off by creating beverage concentrates and syrups and then selling them to authorized bottlers which then produced and marketed the finished beverage products. However, by the early 1980s both companies started to vertically integrate forward by getting more involved with bottling operations through the acquisitions of bottlers. This is otherwise known as forward vertical integration. Vertical integration acts as a benefit when there are a few competitors in the market, because the greater the transaction costs are the bigger the advantages of vertical Integration. Both Coke and Pepsi enacted in forward vertical integration to streamline and enhance their already formidable distribution capabilities and to gain ripple-effect benefits from that.

Coke was the first to forward integrate in 1980. Before this move, relations between Coke and its franchised bottlers had been strained. Coke struggled to persuade bottlers to cooperate in marketing and promotions programs, to upgrade plant and equipment, and to support new product launches. As a result, Coke began buying up poorly managed bottlers, infusing them with capital, and quickly reselling them to better-performing bottlers. This is known as Refranchising. Franchising is a type of vertical relationship. Because Coke refranchised, it allowed Cokes larger bottlers to expand outside their traditionally exclusive geographic territories to gain more profits.

Coke continued to forward integrate to the extent that by 1986, the company created an independent bottling subsidiary, Coca-Cola Enterprise (CCE). CCE consolidated small territories into larger region, renegotiated

contracts with suppliers and retailers, merged redundant distribution and purchased arrangements, and cut its work force by 20%. All these benefits created by Coke integrating forward support the notion of technical economies of vertical integration: cost savings that arise from the physical integration of processes and streamlining distribution. By 2009, CCE was Coke's largest bottler. This would not have been possible without forward integration, which explains why Coke decided to start buying its own bottles.

Pepsi shifted its course and adopted Coke's anchor bottler model. In April 1999, the Pepsi Bottling Group (PBG) went public. By 2009, PBG produced 56% of PepsiCo's total volume. In 2009, Pepsi continued with its plan to integrate forward by buying two of its biggest bottlers, PBG and PepsiAmerica. The merger would consolidate more than 80% of Pepsi North America beverage operations under one roof, which is an end goal for forward vertical integration by bringing all operations into the control of the company. The next year, Coke, bought CCE's North America operations in Feb 2010. The deal brought back 90% of Coke's North America business under its control. As you can see, both companies clearly understood the need to control distribution as a way to stay competitive. It related to the fact that obtaining control of the majority of its manufacturing and distribution system would enable both companies to move products more easily from one distribution system to another, giving it a cost and competitive advantage. Furthermore, buying their own bottlers meant both companies no longer had to persuade its big bottlers to take on each new product which was a very time-consuming process.

The bottlers did not adjust their manufacturing and distribution process because the bottling process was capital-intensive and involved high-speed production lines that were interchangeable only for products of similar type and packages of similar size. An adjustment in manufacturing and distribution would be very costly. Aside from that, bottlers had prearranged agreements with Coke and Pepsi that made it difficult to enact some change. For example, in the case of Pepsi bottlers had to manage an ever-rising number of stock-keeping units (SKUs). Pepsi wanted its bottlers to carry 47 different Gatorade SKUs in exchange for gaining distribution rights to smaller but more profitable channels like convenience and dollar stores. By loading more than one product type on a pallet, bottlers incurred higher distribution and sales costs making it even harder to adjust their manufacturing and distribution process.

Works Cited:

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