

Analysis coke and pepsi learn to compete in india business essay



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The political environment in India has proven to be critical to company performance for both Pepsi co and coca-cola India. What specific aspects of the political environment have played key roles? Could these effects have been anticipated prior to market entry? If not, could developments in the political arena have been handled better by each company?

In order to understand what Coca Cola and Pepsi had to deal with in India, it is essential to grasp the full meaning of what politics includes. Politics is not merely the political ideology the country has and thus the governance of the state including government policies and the role he plays in the country but also on a micro level it deals with small associations and unions and thus also with division of power.

India was seen for many years as being unfriendly to foreign investors. In fact the ' Principle of Indigenous Availability' law specified that if an item <https://assignbuster.com/analysis-coke-and-pepsi-learn-to-compete-in-india-business-essay/>

could be obtained locally, imports of a similar product were forbidden.

Following the first Gulf War in 1991, measures were taken to liberalize the Indian economy introducing the ' New Industrial Policy' to eliminate barriers such as bureaucracy and regulation to foreign direct investment. Despite this, protectionism was still evident in India.

Pepsi entered the Indian beverage market in July 1986 i. e. before the liberalization of India's government, while Coca Cola followed for the second time (after a presence between 1958 and 1977) in 1993. Despite this, both of them received alien status upon entry in the Indian market. The two corporations were required to follow government policies designed to impede foreign business. Sales of Pepsi's soft drink concentrate to local bottlers could not exceed 25% of total sales while fruits and vegetables by Pepsi Foods Ltd. had to be processed. Coca Cola on the other hand had to agree to sell 49% of its equity as a condition of entering and buying out an Indian company (Parle').

Moreover, according to Indian law it was forbidden to promote products under foreign brand names if sold within India and thus Pepsi became ' Lehar Pepsi' and Coca Cola became ' Coca Cola India'.

The Indian government acted as a regulator imposing sets of laws and rules that restrained the way the companies do business. According to Dr. Ashok Rao, (Head of Network Project, CEDT, Indian Institute of Science in Bangalore) (2006), India has a very confused, diverse and stagnant political system. The amount of political parties present in India and the power regional political parties have, act as big barriers to businesses. Unlike

Western democracies, power is centralized and top politicians dictate what happens thus businesses will have to work through many more layers to reach to somebody who can actually take a decision.

The micro environment in India mainly pressure groups also affected heavily Coca Cola and Pepsi. Their political power in India was substantial at the time. To name a few, there was the All-India Anti-Imperialist Forum which called for a boycott of all American and British goods after the attacks on Iraq and the Centre for Science and Environment (CSE) led by Ms. Sunita Narain who issued a report stating that drinks made by Coca Cola and PepsiCo were found to contain pesticide residue far higher than the limits suggested by government's Bureau of Indian Standards (BIS). Both of them led to decline in sales; however, the damage done to sales through government action was less important than the bad publicity received.

All the above highlight the political power and instability present in India. Government situations in India were dynamic and inconsistent mainly because government laws and policies were unclear and not based on strong foundations (Ash Rao, 2006). Because of this inconsistency in the legal environment, there was a greater importance played on lobbying the politicians. Lack of solid institutions gave way to corruption. In fact, as Li Chain, (Ex-member, Planning Commission and Political Reformer in Bangalor) stated years later (Ashok Rao et al, 2006), ' India ranks high on the corruption index. We have not yet found a way of containing corruption in our bureaucracy and political system.'

Being such a dynamic and inconsistent environment, Coca Cola and Pepsi could not predict most of the issues raised beforehand. However, just by looking at the unstable, confusing and dynamic political environment both companies should have been prepared to deal with similar issues.

Coca Cola's agreement to sell 49% of its equity to Indian partners within two years is a case in point. While lobbying was out of the question due to an oversight of the Foreign Investment Promotion Board (FIPB), another option would have been that of not investing further through a joint venture with Parle until solid foundations were built. During the time, investment rules were constantly changing and unclear and thus Coca Cola should have known better and not expect an equal treatment (other foreign companies such as Philips and Carrier were allowed to buy back most of their outstanding shares) considering that as stated by market analysts, there was no apparent logic behind India's government policies.

PepsiCo was quite quick in every situation to abide with the changing policies however both companies lacked pro-activeness. With specific measures in place, both companies could have avoided all the bad publicity on their brand names.

Timing of entry into the Indian market brought different results for PepsiCo and Coca-Cola India. What benefits or disadvantages accrued as a result of earlier or later entry?

Timing of entry in a foreign market is a critical decision. Although the first entrant in the market would have better chances of gaining market share, both first and following entrants have their advantages and disadvantages.
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The political and legal environment in India does not present a clear cut line which amongst PepsiCo and Coca Cola India had the most advantages in terms of time of entry. PepsiCo was the first to enter the market in 1986, although in actual fact Coca Cola had already had a presence in India between 1958 and 1977. The decision to leave was taken when India's government tried to force Coca-Cola to share their recipe and trim its equity stake down to 40%. Coca Cola re-entered the market in 1993.

PepsiCo's timing was impeccable. During that period the carbonated soft drink market experienced substantial growth in India. Pepsi were able to ensure their place and grab a good share amount of the soft drink sales; managing in fact to gain 29% market share by 1993.

Moreover, according to Srivastava M. (2010) "Pepsi became this catch-all for anything that was bottled, fizzy and from abroad." The word Pepsi became part of everyday vocabulary in India referring to soft drinks in general and not only PepsiCo soft drinks.

However, PepsiCo also suffered from a number disadvantages because of its timing. The Indian Government only approved its application to trade in the Indian market after agreeing to the threshold of total sales not exceeding 25% and that of changing name to Lehar Pepsi. PepsiCo also struggled to fight off the smaller Indian soft drink brands in its venture to gain market share.

Coca Cola India, on the other hand, entered the market 6 years after PepsiCo. During this timeframe legislations were amended to facilitate

foreign investment including the elimination of the clause forcing foreign
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companies to join forces with Indian companies in order to be able to enter the market.

In fact, Coca Cola entered the Indian market as Coca-Cola India in 1993. However, wanting to expand its investments, Coca Cola India formed a joint venture with industry leader, Parle, in 1996, buying out four of its bottling plants together with its leading brands Thums Up, Limca, Citra, Gold Spot and Mazaa. For Coca-Cola India to do this, however, it had to sign an agreement with the Indian government agreeing to sell 49% of its equity to Indian Partners.

The Indian market is enormous in terms of population and geography. How have the two companies responded to the sheer scale of operations in India in terms of i. product policies, ii. promotional activities, iii. pricing policies and iv. distribution arrangements.

A population of over 1 billion people (as of 2010 census) and being the 7th largest country in the world, makes India one of the largest markets in the current economy. Both Pepsi and Coke had to adapt to such enormity, and they did so throughout several areas.

Product Policies

Both companies carefully catered for the Indian tastes. They entered the market with products close to those already available in India such as lime beverages, fruit drinks as well as water.

They carefully waited until they had a secure position in the market and had established their core products; then introduced American- type drinks. One

particular example is the introduction of Sprite, a beverage forming part of the Coca-Cola family.

They also introduced new products. Coke was the first to start producing bottled water under the name of Kinley while Pepsi Foods introduced Aquafina.

Promotional Activities

The Navratri Festival is the second – highest season for soft-drink consumption. Pepsi and Coke made full use of this festival and saw it as a promotional opportunity.

Coca-Cola India: It gave away 20, 000 passes to the festival; one for every purchase of a “ Thums Up”. They also introduced a ‘ buy one get one free’ scheme and held lucky draws where one could win a trip to Goa.

PepsiCo: It sponsored dance competitions on a large scale and had many promotional offers such as a free kilo of Basmati rice with every refill of a case of 300ml of Pepsi as well as free kit-kat with every 1. 5 l bottle and free Polo with every 500ml bottle.

The segmentation of different areas of India allowed for the differentiation and division of rural and urban Indian youth into categories, ‘ India A’ and ‘ India B’ respectively. Doing so they were able to advertise and promote their products differently so as to target and appeal to these markets individually.

Coke made use of Bollywood stars to endorse its products, featuring them in their adverts and campaigns while Pepsi preferred to use sporting events

and famous athletes such as cricket players and sponsored events such as the Cricket World Series of 2003.

Pricing Policies

PepsiCo: It included an aggressive pricing policy on their one litre bottles which created different reactions between their competition.

Coc Cola India: In 2003, it slashed its prices of softdrinks by 15-25% as an attempt to encourage consumption and enhance affordability. It also made sure the soft drinks were made available to consumers so as to make it a regular purchase.

PepsiCo was forced to match these price cuts in order to keep up.

Distribution Arrangement

In terms of distribution arrangements both PepsiCo and Coca-Cola India had production plants and bottling centers all throughout India located strategically in the largest cities including Bombay/Mumbai and Delhi. More plants were added when demand increased and when the product range grew.

Moreover, having formed partnerships with local companies, both Coca Cola and Pepsi were able to get initial access into the market.

“ Global Localisation” is a policy both companies have implemented successfully. Give examples for each company from the case.

By definition, the term “ glocal” refers to the organization (in this case corporations such as Coca Cola India and PepsiCo) and the community which is willing and able to “ think globally and act locally.”

Both firms have identified this emerging trend as the key element to surviving in the Indian Market. They adapted their products to the location and culture they marketed them in.

PepsiCo

PepsiCo’s first signs of glocalisation were apparent from the moment it attempted to enter the Indian market as it did so as a joint venture with another two locally based companies, Voltas and Punjab Agro. Together they formed PepsiFoods Ltd.

In 1990 PepsiCo then proceeded to changing its name as well as the name of its other products to Pepsi Lehar so as to conform with the imposed government regulations. This name also helped them to integrate further with the Indian culture.

PepsiCo also launched Lehar 7UP so as to cater for the local tastes and lime culture and placed this in the clear lemon beverage category.

PepsiCo vigorously sponsored cricket players as well as cricket and other sporting tournaments such as soccer. It also sponsored for the whole event those cricket players in the Indian Cricket Team who participated in the 2003 Cricket World Cup in South Africa. Moreover, it took advantage of the World Cup Fever by organising local tournaments and featuring football heroes during this period in their campaigns. PepsiCo also chose its campaigns to tie

in with important sporting events such as the “Keep it Cool” 7UP Summer Campaign which coincided with India – Zimbabwe One Day Cricket Series.

The endorsement of popular Bollywood actors such as Amitabh Bachchan’s endorsement of Mirinda was also used.

As mentioned in the previous question, PepsiCo also made use of the Navratri Festival by creating promotional offers. In the year 2000, it teamed up with Gujarati TV to telecast the festival throughout the 9 nights.

Coca-Cola India

Coca-Cola India also started off as a joint venture; with Britannia Industries India Ltd. In 1993 it went on to form a joint venture with Parle, purchasing its 4 major bottling plants and leading brands including Thums up which in 2002 ranked second nationwide in terms of softdrink consumption. This allowed it to integrate a national drink under the Coca Cola brand so as to boost Coca Cola’s image and credibility.

Glocalisation is part of Coca Cola’s ‘think global – act local’ business plan.

Coca Cola also made use of the Navratri Festival in order to integrate themselves with local culture. In 2002 they gave out 20,000 free passes to the “fast dance” happening during this festival; one for every bottle of Thums Up bought.

Coca Cola India also carried out lifestyle advertising and its main strategy was to “build a connect using the relevant local idioms”. They made use of adverts featuring famous directors such as A. R. Rahman, music director of

Slumdog Millionaire, and made sure to use popular local music such as the gaana. Coca Cola India also made use of Bollywood stars to attract consumers; targeted especially to the rural and urban youth catered for in different segments. Famous stars include Aishwarya Rai and Vivek Oberoi.

Some analysts consider that Coca-Cola India made mistakes in planning and managing its return to India. Do you agree? If not, what or who do you think was responsible for any mistakes?

Coca Cola first entered the Indian market in 1958, however withdrawn in 1977 after facing many problems from the government, such as cutting its equity stake to 40 percent and being asked to hand over its secret formula for the syrup. Coca Cola managed to re-enter the market in 1993 after the first application in May 1990 was rejected.

Pepsi's application to enter the Indian market was probably a trigger for Coca Cola to do the same. This could have been Coca Cola's first mistake: haste. Wanting to be part of this growing and developing market, it entered the market soon after PepsiCo; despite knowing that although sixteen years had passed from its first attempt in the market, the political environment was still very unstable and thus very risky.

Doing heavy research before entering such a risky (politically, economically and also culturally) market, is vital. Still, there was a lot of which Coca Cola did not know about the Indian market, especially in confronting the huge political risks. Although Coca Cola has its faults, blaming Coca Cola entirely would be wrong. The Indian government and other authorities had a lot of power on businesses, as explained in Question 1, making it very hard to <https://assignbuster.com/analysis-coke-and-pepsi-learn-to-compete-in-india-business-essay/>

predict certain situations. Nonetheless, if Coca Cola India had been a bit more knowledgeable and careful in planning and implementing its corporate and business strategies, it could have avoided certain managing mistakes. However, staying out of this attractive market would have been a shame.

Although it is fair to say that its market entry was not made easy due to government application rejections and other imposed rules; Coca Cola India could have tried negotiating with the government a bit more before entering the market). During its first years in the market, Coca Cola India was also very slow in realizing certain key issues such as the ideal price point for its soft drinks. Having more than 50% of the population under poverty line, a reduction in prices (which actually occurred then in 2003), would have increased consumption and thus increasing profits.

All in all, Coca Cola India was quite successful in its choice of strategy, considering it has around one million retail outlets around India selling Coca Cola. Few of its best communication strategies were those of including stars from Bollywood in its advertising and the 'Buy one Get one free' promotion. Despite this however, as mentioned before, understanding the Indian population a bit more could have helped.

In conclusion, what Coca Cola India needed most were safer and more solid grounds to compete on. While there were a lot of external factors and hidden risks which were out of Coca Cola's control, better management of these situations would have lead to better results (as discussed in question 1).

Although it's clear that Coca Cola made mistakes in its market entry stage; it was also a bit unlucky; maybe due to its hasty decision in entering the market.

How can Pepsi and Coke confront the issues of water use in the manufacture of their products? How can they defuse further boycotts or demonstrations against their products? How effective are activist groups like the one that launched the campaign in California? Should Coke address the group directly or just let the furor subside, as it surely will?

" The Coca Cola Company used 290 billion liters of water in 2006 alone, enough to meet the entire world's drinking water needs for 10 days" (Amit Srivastava, July 30, 2007). This fresh water was mainly used to clean their equipment in the production process, turning two thirds of this water into waste water. One must note that this is done in a country where water shortage is a meagre problem. Therefore both multi-national must ' take the bull by the horn' and change the way they do certain procedures without hiding but being sincere. More efficient ways of cleaning must be found to waste less water and be more responsible towards the Indian nation. Coca-Cola has lately announced a partnership of US \$20 billion over three years between them and the world wildlife fund on water conservation. This will help in rebuilding the trust with the Indian population so as to succeed in the Indian market. An element of corporate social responsibility is important for companies to work better within foreign market.

Bad publicity can damage a company's reputation definitely. This was clearly experienced by both PepsiCo and Coca Cola India. Although advisory boards

were created and purity tests were conducted in order to avoid further boycotts or demonstrations against their products, this was not enough. Better use of Public Relations would have been a first step. Having conducted purity tests, the next step would be that of communicating the results in an effective way. Choosing to deny the accusations and then presenting these tests could have been felt as a pique. The use of press releases and open days at the factories showing the process for example would have made both the government and the general public more participant. Moreover, trying to deal with the government by emphasizing on corporate social responsibility could have gained government's trust and thus earn a safer position in exchange. Offering a percentage of their profits to help in building schools or hospitals in India could have been an idea.

Activist groups, like the one in California, are very powerful. They can be great allies but also worst enemies for a company. Their influence on the general Coke consumer is great as they reach the consumer directly through various activities; and in turn these consumers force manufacturers/suppliers etc to take action. In fact, the campaigns in California led to several bottling plants closing down as well as the discontinuation of contracts with Coca Cola.

Coke should address the group directly avoiding accusations of trying to hide its activities and actions. In this way it would defend itself and would also be able to regain its credibility and continue building its image by being proactive. Another reason why it should do so is to gain trust of customers since it claims it has nothing to hide by being truthful and giving an answer instead of waiting for the rumors, accusations and scandal to subside.

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Which of the 2 companies do you think has better long term prospects for success in India?

The two companies in question are strong multinationals which are widespread around the world. Some might argue that on world terms Coca-Cola is the strongest brand out of the two. However after analyzing the case in hand it is evident that both companies could have handled situations different leading to different results.

The success or lack of it in the first years in a foreign country can be very helpful in predicting the future of the company. Pepsi on the one hand has already a great market share and sustainable brand recognition. On the other hand, Coca Cola's conflicts with the Indian government are not very promising. Having a good relationship with authorities is vital for growth.

Both multi-nationals have been successful in developing marketing strategies aimed at increasing the consumption of carbonated soft drinks. Moreover, they were both very successful in glocalization as seen earlier. Some argue that PepsiCo was most successful through the use of Basmati rice (considered a luxury type of rice) in its sales promotions while others consider Coca Cola's depiction of Bollywood stars its advertising campaigns as being impeccable.

Moreover, Coca Cola India was always the ' initiator' of the new ventures/strategies, but failed to follow through. PepsiCo followed Coca Cola's initial ideas, going that step further. In fact, PepsiCo was more successful in engaging the local people with its brand.

Statistically, Pepsi has had constant growth during its occupancy in a stable pattern. Long term investors seem to prefer Pepsi Co due to its promise of future expansion. If a company invests in Pepsi Co today, PepsiCo is promising a rise of almost 100 more points by 2015. Coca Cola India seems to be attracting more those who believe in fixed income, as its investments seem to be fluctuating less.

Regarding direct competition, Coca-Cola still trails behind Pepsi in terms of market share which could signify that Pepsi has a better overall strategy for success. Coca Cola seems to be struggling more to survive in such a dynamic and growing market. All in all, the current situation does point more towards Pepsi as being more successful than Coca Cola in the Indian market.

What lessons can each company draw from its Indian experience as it contemplates entry into other Big Emerging Markets?

It seems that prior market research was most overlooked by both companies. Deep market research including all the PESTLE elements is vital in order to understand how to do business in the foreign country. As stated in the text: ' In many ways, Coke and Pepsi managers got to learn the hard way that ' what works here' does not always ' work there'. Moreover, on-going environmental scanning is important in order to be able to anticipate matters rather than being re-active to situations. With specific measures in place, both companies could have avoided all the bad publicity on their brand names.

Both companies should also have focused more on education of their

products. Most probably, many emerging countries lack knowledge of their
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brands and also lack certain infrastructures and standards of living present in other developed countries.

PepsiCo lessons learnt

Pepsi realized how important it is to understand and keep with local tastes thus focusing on the clear lemon category which was a great hit in India. It is also beneficial to pay attention to market trends in order to position your product accordingly. A very important point for Pepsi in India was the pricing policy and bottle sizes.

Adapting your communication mix as well as distribution methods to the market is also a key point. Local celebrity appeals made for exceptional advertising for PepsiCo.

Coca Cola India lessons learnt

While also realizing the importance of paying attention to market trends; Coca Cola surely realizes the importance of investing in local products. While not investing in Thums Up brand for the first couple of years, decreasing market share from 60% of total carbonated beverage sales to 15%, after a substantial investment, Thums Up ranked second nationwide within a year.

The importance of timing of entry should not be overlooked. Coca Cola entered the market at a poor time because they had to agree to abide by all of the Foreign Investment Laws of that year

Defining your target audiences more specifically than what Coca Cola did in India could have helped for better targeting/positioning and thus advertising of products. Coca Cola separated its markets as ' India A' and ' India B'

without any further differentiation through for example age, gender, language, interests, location.

Establishing a good business relationship with the host country's government and/or any other governmental or non-governmental groups present in the country is also vital as these could act either as a source of advantage or could impede your success. Coca Cola made a mistake in trying to get out of its promises. It had already made a mistake by entering the contract they did. By continuing to apply for extensions and attempting to deny voting rights for the Indian stake, Coca Cola India was only tarnishing its public image and destroying its relationship with the government.

Finally, as Venkatesh Mysore, (Managing Director, MetLife India Insurance Company Pvt. Ltd. In Bangalore) said: ' It is extremely important for MNCs to follow the laws of the land, and not look for short-cuts' (Ashok Rao et al. 2006).