Competitive comparison between coke and pepsi

On the basis of Porter's Five Forces; that will provide a critical analysis of the firm, the potential threats and their weaknesses and strengths that exist in the business of the company, are going to be discussed below:

Strengths of Coke:

The main strengths of the Coke in the CSD industry are highly dependent upon its brand image in the market segment because brand " strength" certainly impresses. Moreover, its huge economic assets and the distribution set-up let this market giant to create an easy task to capture more than a 40% of the CSD market share.

Weakness of Coke:

After the death of the Coke CEO, it suffered a lot in terms of its high attrition rate that boost up to 20% during 2001-2004. Furthermore, the decrease of its growth rate from as high as 18% to the low percentage of 4. 2, and this put the company in a series of continued risk in the market segment.

Strategic Option to Coke CEO

Supplier Power

In 1990s, the relationship between bottler and concentrate provider struck badly. For instance; when Coke had increased its concentrate price by 7. 6%, there was no option available for bottlers other than to raise its prices in the supermarket by 6-7 percent. Meanwhile, the price for CSD didn't increase by that ratio. These bottling companies had to go for a low-price strategy if they wanted to compete with the non-labelled low-cost drink. CCE already suffered from its debt of investing money to its retail infrastructure and due to this their profit margin began to fall in the year 2000.

To avoid getting lost of the suppliers, Coke must revive to pay attention towards the betterment of its bottling industries by retaining its concentrate prices to equate with the CCE's wholesale CSD prices. Because, the more the CCE grow faster and make profit, the more chances come for CCE to escalate the prices in the supermarket by their own means. Or there would be another option for the coke is that to attract more market share in the CSD industry; coke can apply the same policy as the Pepsi did in 1963 and 1990 when Pepsi charged for its concentrate price 20 percent less than as of Coke did during the same year. And this would provide Coke to make its bottling industry even better.

Buyer Power

The retail industries in US grew faster in the last decade. The food-retailer giant Wal-Mart has reached to its zenith. Where it can easily drive-up the prices of CSD but still resisted to increase in. Such type of industry leading merchandiser could be a potential threat to coke not only in the sense that it could exert a pricing pressure but also compel the concentrate provider like Coke to alter its strategic plans.

So the way to overcome this situation, Coke must put its effort to double its advertising campaign because the share unit price for coke during the year 2004 was relatively low as compared with that in 2003.

Moreover, Coke can make a tactical move towards its soda fountain stores as well, which involves not only the direct sell of its products with a great offer to the food broker but also getting a high attitude of its sales and profit that lead to its long-lasting winning competency in the marketplace.

Competitive Rivalry

Instead of many non-labelled brands in the market, PepsiCo is the only major rival of Coca-Cola in the non-Alcoholic beverages industry. Pepsi is engaging itself to gain more market share within U. S and in the international market as well. And this is the time for Coke to expand its CSD and non-carb (like juice-drinks, soft-drinks, sports-drinks, energy-drinks and tea-based-brink) business in U. S and worldwide as well.

In U. S, as the CSD industry plunged by 73. 1% from 80. 8% in 2000, Coke can focus towards non-carb beverages as the consumption of non-carb and bottled-water grew more than CSD during 2004.

There is an equal chance for Coke to capture its worldwide business, by closely look into certain areas (like UK, Russia, and some parts of Latin America, Asia Pacific and Africa/Middle East) where its products attained a high level of consumption rate, and this can be done by utilizing its huge financial resources and the distribution system.

Threat of Substitution

It is believed that non-carb beverage is a potential threat for CSD. Because, the process to develop this drink (known as cold-fill process similar to CSD) can easily be adopted by bottlers with less effort, as compare with the drink like Dasani (Cokes' bottled-water) needs significant changes in the process and expensive machinery.

Coke should try to settle out the price of its concentrate with its bottler's CSD wholesale price. Because if the cost boost up, the end-users try to quest for an alternative low-price-product (like different brand of drinks available in non-carb category such as Lipton Brisk, Red Bull, etc.) and bottlers will no doubt prefer to search for a less priced-concentrate.

Moreover, coke can also develop a strategy to customize the taste of its product by selectively targeting the market segment according to the customer’s requirement by entering into the non-CSD beverages market and make full use of its distribution techniques.

Threat of a New Entry

The potential threat occurs when it is easy for the new firm to come into the business with a less spending of time and cost of money. Coke must try to put up the barriers for the new entry into the competitive market by its brand advertisement, create innovation in its products, focusing towards young and family consumption drinks, helping its bottlers to revive fast and at the last but not the least, it should focus to its global market (like Japanese market which has proven to be an extraordinary growing market for non-carb products like tea, coffee, juices, etc.) as well because this is the pinpoint at which Coke can overwhelm its competitors.

Question ‘ 3’ of the Case Study: Coke and Pepsi:

The Analysis of the U. S market structure of Soft Drink Industry and the relevant implication Of the Government Antitrust policy

United States businesses in the last 30 years experienced a large number of mergers. While the level has been climbing, the 1960s and the 1980s were especially active in this respect (Edward, 1998). Similarly the soft drinks industry in the U. S has undergone a major structural change over the last decades. The industry which was once fragmented with hundreds of local manufacturers is a lot more consolidated now.

According to the relevant figures, in the year 1966 smaller Soft drink manufacturing companies had a market share of 29. 8%, along with Coke's 33. 4 % and Pepsi's 20. 4% (Exhibit 2 of the case study with respect to U. S Soft Drink Market Share by Case Volume (percent)). A company can grow in two ways: internally as a result of its efficiency in a competitive market, or externally through mergers (Greer, 1992). If we see today's example, Pepsi and Coke are the only two dominating figures in the market with their combined market share of 74. 8%. Since the increasing competition during the last decades the smaller manufactures either faded away or merged with the bigger players in the contest. This is quite evident from the fact that the market share of the smaller companies came down to a mere 5. 2% in 2004 (Exhibit 2 of the case study with respect to U. S Soft Drink Market Share by Case Volume (percent)). An important branch of the literature on mergers centers on whether mergers increase economic efficiency (Gilbert, 1989) or whether they are damaging to the overall workings of the economy (Adams and Brock, 1990).

Even though the structure of the market has changed, Pepsi and Coke continue to be the leaders in the segment, with their high level of market concentration. The CSD market which was once full of local competitors became the battlefield for Pepsi and Coke after World War II. Pepsi was aggressive with its strategies and gained 10% of the market share in 1950 (compared to Coke's 47%), which further doubled in the 1960s. The CSD market which operated at the Oligopoly scale often changed its structure because of the strategies implemented by Coke and Pepsi. Both companies were aggressive in maximising their market share.

As the war began between the two companies, the Government had to interfere quite often with its antitrust policies so as to maintain the CSD market as a competitive market. Jarrell, Brickley and Netter (1988) point out that antitrust regulators have realized that in the competitive international market place, these mergers, to a degree, have contributed to an increase in the level of concentration of acquiring enterprises, a view supported by Karier (1993) who observed that a large number of mergers took place among smaller firms.

There were different strategies implemented by both Pepsi and Coke to gain market share in the growing CSD market. Their pursuit for getting the dominant international figure in the CSD market always faced barriers in the form of antitrust regulation Policies. The antitrust policies always ensured that the CSD market remains competitive and also that no company acquires any unfair means to gain market share.

In the absence of the antitrust policies, the competitive market for CSD would have almost become a duopoly with Pepsi and Coke fighting to maximise their market share. An in-depth analysis of the case study would provide a few points which could be considered as relevant implications for the Government Antitrust Policy. They are:

Territorial Exclusivity & Franchising

When the number of bottlers has declined significantly, for instance in the 1950s, there were about 6, 000 bottlers; dropping to 3, 000 by 1970 and down to 1, 500 by 1980. Coke took the initiative to build a nation wide franchised bottling network. It provided its bottlers with exclusive territorial rights. Soon Pepsi and Cadbury followed the same strategy. With this the bottlers could manufacture the non-cola brands of other producers.

In 1978, the Federal Trade Commission scared soft drink bottlers by ruling that the use of exclusive territories was illegal and that it would prevent the intrabrand competition. In the wake of the FTC decision, the bottlers turned to Congress for protection. However it became legal in 1980, when the Congress passes the Soft drink Interbrand Competition Act (CNET Networks, 2008).

Merger and Consolidation in Bottling companies

Coke and Pepsi started acquiring, poorly managing and reconsolidating its key bottlers as a system. In 2004 Coke produced 94. 7% of its domestic volume with its top 10 bottlers, while Pepsi produced 87. 2% of its volume.

One Anticompetitive outcome on the market was that the Bottlers have been consolidated by concentrate producers (CP), placing smaller CPs at the mercy of Pepsi and Coca-Cola’s bottling networks and making it tough for small CPs to compete in the market place. And because of this, both Pepsi and Coke could avail the chance to exert pressure on the small CP. It could also affect the elasticity of demand in the market and could result in exposing Coke and Pepsi to the risk of anti-trust action taken from the regulatory authority that could prevent dealing of Cola products with Bottlers (Katz, 1978). As such decisions can always be considered dangerous when it weakens a competitor, who then has to produce at higher cost because of the reduced scale of economies.

Acquisitions by concentrate companies

Irrespective of how companies grow (internally, externally), there is a potential for concentration, which presents a danger as it may lead to monopolization (Berle and Means, 1932) and this could have been another implication for the antitrust policies. To compete with growing competition in the Soft Drink industry, both Pepsi and Coke were acquiring smaller companies one after the other. Same was the case with their closest competitor, Cadbury Schweppes. In 1995 when it acquired Dr Pepper and Seven Up, its US market share boosted from a mere 4. 6% in 1994 to 15. 1% in 1995. This shows the drastic changes that well implemented strategies that bring up. If the same had happened with either Coke or Pepsi, their market share would have further increased and it would have become nearly impossible to compete with them in the market.

Moreover, the above discussion needs an argument that still it’s not clear that what the best policy should be allowed by the antitrust organization to uphold a balance between the markets and to allow every single competitor to grow into the market fairly.

Since Both, Coke and Pepsi put their all effort to constrain the market for the new firms, having believed to adopt certain strategies that lead to add more strength in their competency. But at the same time we can see that the antitrust organization had become almost an obstacle in between some of the strategic acts developed by Coke & Pepsi. Nevertheless, both Coke and

Pepsi are considered to be market giants in their market segment. If this situation continues to exist in the future ahead, then there would be no doubt in the mind that the CSD industry will sooner become a Duopoly market competition.