

The competitive strategies of coca cola economics essay



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This paper is discussing about the economic market structure, especially for imperfect competition market which are monopolistic competition market and oligopoly market. There will be explanations about definition, characteristics, and examples of monopolistic competition market and oligopoly market. There is Dunkin' Donuts Inc. for the monopolistic competition market and Coca Cola Co. for the oligopoly market. This paper also will discuss about competitive strategies of Coca Cola.

Introduction

In economy study, people know that there are view types of market in the existence. These market types are differentiated according to number / distribution of firm(s) in the market. According to Sloman & Norris (2002), there are four types of market structures in the practice, which are perfect competition, monopoly and monopolistic competition, oligopoly markets.

Perfect competition market is a market with the most sellers and buyers in transaction. In this type of market, the products that provided are mostly homogenous. To get in into this market, there are no barriers. Both of the buyers and sellers is price taker (O'Sullivan et al, 2008), so in this market price is not the factor that could affect the sales, instead of it service is much more attractive.

Monopoly market is a market with a single firm that provide product that has no close-substitutes. This condition clearly shows that this type of firm has power that will allow them as the price maker, since there are no close-substitutes that can be chosen by consumer to replace the use of the service

or goods provided by the firm. In this monopoly market there is entry barriers such as patent, government policy, etc.

Perfect competition and monopoly market are the extreme condition in market. The other two market structures which are monopolistic competition and oligopoly market is more common type of market that we can see in the real life situation if they are compared to perfect competition and monopoly market.

This paper will discuss more on imperfect competition market that are the including the monopolistic competition market and the oligopoly market, which are more relevance to the practice with the relevance and appropriate examples.

Contents

Theory

Monopolistic Competition Market

Monopolistic competition was developed by an American economist named Edward Chamberlin in 1930s (Sloman & Norris 2002). Monopolistic is a type of monopoly market; there are quite number of firms' running in the industry, but they produce a differential product which distinguish them from other.

In monopolistic market, a firm is independence; means that firm in this market are hardly affected with their competitors act or decision, or vice versa (Sloman & Norris 2002). Firms in the monopolistic market are offering their products through different things from their competitors; appearance,

levels, technology, quality, price, etc. These differentiations of product are also known as Product differentiation (Parkin, 2000).

There are no entry barriers to get in into this monopolistic competition market. Barrier such as patent or government regulation is not applicable in this market (O'Sullivan et al, 2008). According to Parkin (2000), firms have the free entry and exit in monopolistic market. Normally if the condition of this market is highly profitable there will be a positive signal that invite numbers of firm to come in and the distribution of profit will be divided to the firms in market, but when they performance of market is low, there will be number of firm as well leaving this market. The below tables show monopolistic market in profit and loss time (Case & Fair, 2008):

However, in the long run there will be no super abnormal profit for firms in monopolistic market, since because of the signaling, firms are freely enter and exit from the market. Here is the long term condition graph (Case & Fair, 2008):

Oligopoly Market

Oligopoly is a term that derived from the term of the Greeks which are "oligos" meaning little or few and "polein" meaning to sell. Oligopoly refers to a market where there are only few firm running the business in the field. (Tucker, 2005). Not the same with monopolistic, to enter into oligopoly market is not easy to be done, since oligopoly market has the entry barrier as monopoly market (Sloman & Norris 2002). According to O'Sullivan et al (2008), government has intervention in this market, making sure there is no bunch of firms operating in the oligopoly industry by issuing controller such

as patent and business licenses. Besides that, firms in oligopoly market are majority competing also by advertising campaign. The expenditure budget for advertising in this market is very high.

Not similar with monopolistic competition market, oligopoly market is interdependent. The decision that made by firm that operating in oligopoly will affect the other firms that operating in the same market. In this market there will be no firm that does not consider the action taken by their rival. Most of the companies in oligopoly firm compete through non-price competition. By practicing non-price competition, each oligopolist create barrier for competitors to combat an important product improvement. Here are some examples of non-price competition (Riley, 2006):

Free deliveries and installation

Extended warranties for consumers and credit facilities

Longer opening hours (e. g. supermarkets and petrol stations)

Branding of products and heavy spending on advertising and marketing

Extensive after-sales service

Expanding into new markets or diversification of the product range

In oligopoly market, the graph of demand will shows a kinked curve. The kinked demand curve model happen because of two assumptions that made in oligopoly market, which are:

If a firm rising the selling price, the other firms remain (not follow to increase the price)

If a firm cutting the selling price, the other firms will follow to cut down their selling price as well

Kinked demand curve in monopolistic market (Anonymous, n. d)

Oligopoly market has a tendency to think what is their competitor reaction to their new policies. To examine this oligopolist behavior can be done with the Game Theory. Game Theory is a study to analyze the strategic behavior depends on the reaction of the competitor into the new policies (Sloman & Norris 2002). As outlined by Samuelson and Nordhaus (2005), some general findings of game theorist in the area of imperfect competition are:

As the number of non-cooperative oligopolists becomes large, industry price and quantity tend toward the perfectly competitive outcome.

If firms decide to collude rather than compete, the market price and quantity will be close to those generated by monopoly. But experiments suggest that as the number of firms increases, collusive agreements become more difficult to police and the frequency of cheating and non-cooperative behavior increases.

In many situations, there is no stable equilibrium for oligopoly. Strategic interplay may lead to unstable outcomes as firms threaten, bluff, start price wars, capitulate to stronger firms, punish weak opponents, signal their intentions, or simply exit from the market.

In this Game Theory, there is also a term called “ Prisoner’s Dilemma” that illustrate the difficulties in maintaining a cooperation (Mankiw, 2004).

According to Parkin (2000), there are 3 things that need to be paid attention in Game Theory, which are rules, strategies and payoffs. The game theory will be illustrated as following:

A and B are caught stealing a car, both of them were interrogated by the polices and they will sentence for 2 years in prison. The police suspect that A and B is involved in recent robbery, but they have no evidence to prove it.

Rules: A and B were put in different cabin, each told they are suspected involve in robbery. If both of them confess they did it, they will sentence into 3 years prison, however if one of them confess and the other one does not, the first one will only sentence for 1 year prison and the other one 10 years.

Strategies: the possible action that can be taken by A and B are , Confess or denied they involved in the robbery.

Payoffs: because there are two players and two strategies, there are four possible outcomes, which are: Both confess, both denied, A confesses & B denies, and B confesses & A denies.

10 Years

1 Year

2 Years

2 Years

3 Years

3 Years

1 Year

10 Years

Prisoner's Dilemma Payoffs Matrix (Parkin 2000)

Company in Monopolistic Competition and Oligopoly Market

Monopolistic competition market can be entered easily, even though there are many competitors in the industry competing in it. Food and beverage industry is also included in monopolistic competition market. In example Starbucks, McD, KFC, and Dunkin' donuts are well known in the franchise business in food and beverage industry.

Dunkin' donuts is a beverage industry firm that provides donuts and the regular coffee. Founded in 1950, today Dunkin' Donuts is the No. 1 retailer of hot and iced regular coffee-by-the-cup in America (Miranda, n. d.). In beverage industry like Dunkin' donuts we can see there is quite numbers of firms are operating in the same industry such as Krispy Kreme, Starbucks, etc. Each of these companies has their own characteristic that differentiate them with their competitors; such as Krispy Kreme is more concentrating in the production of donuts, while Starbucks are providing more various

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blended coffee. However, Dunkin's donut also has its own characteristic which is providing the regular coffee with the delicious donuts or cakes.

According to Miranda (n. d.), Dunkin' Donuts in Florida are doing very well and doing better than the other franchises in other states. Dunkin' Donuts sells 52 different donuts and more than a dozen coffee beverages as well as bagels, breakfast sandwiches, and other baked beverages. Dunkin' donuts is having a powerful market position. It has become the No. 1 in regular hot coffee sales, No. 1 in bagels, No. 1 in donuts and No. 3 in breakfast sandwiches, and Dunkin' donut is developed with a strong and profitable franchise business model (Goumas, 2006). There is no entry barrier for those firms that wanted to come into beverage market, such as J. Co in Malaysia; it's a new comer in the beverage industry.

For Oligopoly market there is Coca Cola Co. which is leading in the carbonated beverage industry for years. There are only a few producers in carbonated beverage, this makes carbonated beverage industry included in oligopoly market.

Coca Cola Co. are included in oligopoly market, even though in the real life there is quite a lot carbonated drinks available (which can be categorized into monopolistic competition), such as F&N in Malaysia. But in the practice, these carbonated beverages industries were dominated by Coca Cola Co. and Pepsi Co. for decades, this beverage industry become oligopoly. Thus, for the smaller firm such as F&N in beverage industry has their sales in a little share and cannot be compared to the sales of Coca Cola and Pepsi. The main rival of Coca Cola is Pepsi Co., which has been decades competing in

the Coke industry. In the carbonated soft drink industry today, Coca-Cola dominated 43.7% of the market, followed by PepsiCo. occupied 31.6% and Cadbury-Schweppes' 15.8% (In January 1999, the smallest oligopolist Cadbury Schweppes PLC, sold part of its international business to Coca-Cola Co.) (oligopolywatch.com, 2005).

The branding and advertisement effort for Coca Cola and Pepsi are also competitive and they have their own characteristic. For Pepsi, they always hire well-known artist such as Britney Spears, Beyonce and Pink to advertise their Pepsi Coke. In the other side, Coca Cola always use a creative advertisement. They never stop their advertisement, even though they know that both of them is the leader in the industry, because they never want to lose to one another.

From the number of firms in the market, the tendency that firms can go in into market and the branding & advertisement effort, makes the carbonated beverage industry become an oligopoly market rather than monopolistic competition market.

Competitive Strategies of Coca Cola Co.

Advertisement and Sponsorship

Consider the long-running Coke-Pepsi feud, both Coca-Cola Co. and PepsiCo. are trying to made a useful foil for advertising, and company created product distinctions during the competition. During the Beijing Olympic in 2008, again Coca Cola has been the official partner for this event in past 80 years. For Coca Cola there is never too early to do promotion, it proven by the launching of limited edition Coca Cola Olympic edition with various

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languages (Baar, 2008). In December 2008, Coca Cola running a new mobile marketing campaign in Germany and also they did advertise in television that showing the Coca-Cola truck driving through a snowy landscape. (Khan, 2008).

Expand in Market and Product Range

Recently, Coca Cola put more effort in expanding their production in China. Coca Cola Co. has built 2 production plant in the less developed central and west China (The Coca Cola Company Press, 2009). Since Pepsi sales compare to Coca Cola sales in China is larger, Coca Cola does not stop expanding their target which is China market.

Coca Cola Co. has variety products which have been introduced as the needs of the customer. As stated in The Coca Cola Company Press (2009), Coca Cola has more than 3, 000 beverages, from diet and regular sparkling beverages to still beverages such as 100 percent fruit juices and fruit drinks, waters, sports and energy drinks, teas and coffees, and milk-and soy-based beverages, our variety spans the globe.

Keep Innovative and Efficient over the Long Run

Oligopolistic competition is proved to be beneficial, because it provides continuous improvement, and ensures that managements would keep their organizations innovative and efficient over the long run. Argued by Zachary (1999), market leaders need challengers to keep them on their toes.

According to Weier (2009), Coca Cola Company plant to lunch out Freestyle drink dispenser, in the US nationwide. This dispenser have the concept of

fulfill customer choice to new heights, the most interesting aspect is the technology it's built on.

Cutting Price

By doing innovation such as lunch out Freestyle drink dispenser, it will help Coca Cola Company to do price cutting. Freestyle will become Coke's front-line robotic army for business intelligence, sending massive amounts of consumption data back to the beverage company's Atlanta headquarters. The dispensers collect data on what customers are drinking and how much, and transmit that information each night over a private network to data warehouse system in Atlanta. Unique byproduct of this BI enabled dispenser is that Coke can try out new flavors and get back almost real time feedback on the viability of its success. It will no longer have to ensemble Customer focus group and try it out in a 'lab'. The real world becomes the lab and the marketing department at Coke can watch consumers vote yea or nay on the viability of new product instantaneously. This not only improves the speed of feedback but also makes the entire test marketing process cheaper.

Conclusion

There is perfect competition market and imperfect competition market. Perfect competition markets are including perfect competition and monopoly market. However, imperfect competition markets are monopolistic competition market and oligopoly. From the overall analysis, it shows that the oligopoly is the most difficult competitive structure to evaluate than other market structures, because the intensity of competition is high whereby oligopolists battle for market share. Each and every move by a

player attracts retaliation. And many market structures tend towards being an oligopoly as time progresses.

In oligopoly market effort such as branding, advertising, business expansion is very core. Since the price battle cannot be done in oligopoly market, a firm must be able to make moves in non-price battle. To gain the competitive advantages in the long run, Coca Cola need to take care about their advertisement and sponsorship program, developing the research and development, keep expanding their market; specially the location where Pepsi Co. gain more sales compare to Coca Cola.

Coca Cola Company is one of the successful firms in oligopoly market, their effort to be existence in the market has leaded them to the top of beverage market until now.