Cola wars continue: coke and pepsi 2006

Cola Wars discusses the economics and strategic issues involved with the most notable companies In the business of carbonated soft drinks, Coke and Pepsi. The case also discusses the ramifications of fierce Industry competition and Its effects on profitability. Both Coke and Pepsi (concentrate producers) manufacture concentrate that is then sold to franchisees (bottlers) of Coke and Pepsi, who then complete the manufacturing process to create the end product, carbonated soft drinks. Manufacturing of the concentrate Is a very low capital Intensive business. and only requires only one plant.

Coke and Pepsi also assist their franchisees with supplier and retail sale negotiations. They also perform market research, promotions, and advertising for the bottlers. The bottling of the concentrate is highly capital intensive, which Includes packaging, labor, large distribution networks, and costly raw materials. The profits for the concentrate producers and bottlers differ greatly; in 2004 it was 30% and 9% in pre-tax profits respectively (Yoffie, 2009). The franchisors ften push capital expenditures onto the bottlers that cause decreased profits for the franchisee.

The relationship among the business partners was been Inhospitable at times over the years. Despite the Intensive competition among these Industry giants, they both have survived well over 100 years. This intensive competition has assisted both of these firms to constantly innovate and create better products. Both firms were able to have tremendous growth early on by having strong patent rights, and establishing a large franchise network. The firms have had a 50-70% market share for the last 40 years.

Yoffie, 2009) Coke and Pepsi have also benefited from a sector that has seen consumption rates grow from 12. % in 1970 to 28. 7% in 2004. (Yoffe, 2009).

These consumption rates often surpassed those of milk, beer, and coffee. Historical profitability The main source of the historical profitability for the carbonated soft drink industry is the franchise system that was developed between the concentrate producers and bottlers. As evidenced in exhibit 4 (Yoffe, 2009) there is a huge distinction in costs with the associated business structures. The bottlers are taking the brunt of the roduction costs, while the concentrate makers only deal with advertising, promotions and market research.

Furthermore, infrastructure changes that have been hard-pressed by both Coke and Pepsi have squeezed the profits for the bottlers. Having little competition over the years has also assisted In profitability. In 2004, Coke and Pepsi had a commanding 74. 8% market share of the carbonated soft drink industry (Yoffle, 2009). This control has been fortified by the strong patent laws 1 both firms established, product diversification has also enabled them to attain long erm profitability. Starting in the 1960's the both firms branched out to non-cola flavored beverages.

In the later part of the 20th century, they started to sell diet and more health conscious brands. Coke and Pepsi have always been quick to bring new products to market that will satisfy the unrealized desires of the consumer. The firms take advantage of their size, business structure, and market research to capitalize on the beverage markets and make positive profits.

Economics: Bottling Business vs. Concentrate Producers The bulk of the economics has to do with the franchise system.

The bottlers, being franchisees Just need to adopt the turn key system for producing profits. They must make sure that they increase sales, and control costs to achieve profitability. The concentrate producer must make sure that they are creating and marketing the best product, so that the bottler's sales are supported. Coke and Pepsi benefit by not having to make the sales and production of the final end product. While the bottlers do not have to intensively market the product or invest vast sums of capital into market research and new product development.

Though franchise system may seem nfair at times for the bottler, because they take lion's share of production costs, Coke and Pepsi provide them with a worldwide recognized product that is easy to sell. Industry competition and Profits Both the concentrate producers and bottlers are greatly affected by competition for profits. In 1990, the bottlers cut prices in the very competitive arena of supermarkets (Yoffie, 2009). It was during this period that private labels brands were starting to make a dent in overall market share. These price decreases caused CSD prices to go flat, while the concentrate prices steadily rose.

The result was decreased profits for the bottlers. Then in the 1999, CCE, an anchor bottler for Coke decided to raise retail prices. As a result, the sales volume dipped, and both the bottlers and concentrate producers were hurt with decreased profits (Yoffie, 2009). Through these pricing issues, the firms have realized that they need to unify for the overall goal of profitability. The intense competition for profits has been positive in bringing the very best products that each firm can offer to the market and at the best price.

This is always great for the consumer. Can profits continue? Based on the recent growth rates for the entire industry, and each firm's abundant product line, I strongly believe that the firms will be profitable in the future. The profitability will need to come from a diverse product range, whereas in the past, two or three products were the lion's share of profits. The category of these companies' flagship brands, Coke-Cola and Pepsi only saw growth of 1% industry wide in 2004. Whereas the non-carbonated beverages rose 7 % and single serve water Jumped 18. 8% (Yoffle, 2009).

]This is a direct correlation that America has becomes more ealth conscious over the last several years (Yoffie, 2009). Both of the firms have taken proactive approaches to diversify their product lines to accommodate the health minded consumer. They have also introduced products that are similar tasting to the original, without the harmful ingredients. Ultimately, the franchise system, strong marketing, product diversification, and market research will drive both firms to achieve profitability.