

# Coke market analysis essay sample

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Coke is a carbonated soft drink beverage produced by the Coca-Cola Company. The Coca-Cola Company is based in Atlanta and owns the trademark coke. Coke is produced in several product lines' which include caffeine free cola, diet coke, coke zero and coca-cola vanilla. Coke as a product is available and also targets all the 200 countries in the world thus it is not restricted to any given region. It is also the main dominant product in the world's beverage market. Coke is a differentiated product with its main close competitor/substitute being Pepsi. The two products usually target the same customer base and also do satisfy the same need but they are made to look different to consumers through product differentiation activities such as branding and massive advertising. Although coke is one of the leading brands in the world matter fact it is the most valuable brand in the world with a worth of one billion in the recent past there has been some health issues raised about the product. The product has been associated to diabetes, dental diseases, cancer and other obesity related conditions arising from the ingredients used in the coke syrup formula.

Issues have also been raised on the bisphenol A used in the lining the coke can which have been termed to be environmentally harmful. Basically issues regarding the coke product have been centered on health issues as many researchers have found that coke has some health implications (McGonigal 2012; Harrington 2010). Coca-Cola positions its products depending on the target market, competition, and also depending on the types of the market structure it is in. Coke's target market is mainly the teenagers and the youth whose demographics are between the ages of 18 to 25 years. The segment of the target market constitutes 40% of the coke target market. Other target

segments include; the people with busy lifestyle, students, the young , adventurous and also both upper and lower classes in terms of income (Anon, 2012). Coca-Cola Company has made sure they designed products to suit the needs of each of these segments. For example the packaging of the products in returnable bottles meant to attract the people in the lower income segments.

The 1 liter and two liter bottles for the families and the coke zero and diet coke for health conscious consumers. The company targets the audience using different techniques. The main tool is advertising which the coca-cola company is known for. Coca cola has one of the biggest advertising budgets in the world amounting to \$2. 9 billion in the year 2010. The carbonated drinks beverage industry has many players but there the major dominant forces in the industry. The supply of carbonated drinks is usually high due to the many players in the market but the major players are Coca-Cola Company and PepsiCo. The other players include Nestle, Cadburys, Dr Snapple group and Buffalo Rock Company (Business insights, 2012). The coke product therefore operates under oligopoly market structure and more specifically a duopoly. This market is characterized by non price competition with the main forms of competition being in form of advertising, packaging and branding.

There is also interdependence between firms and product differentiation. Interdependence is shown by especially the two major players in the industry that is Coca Cola Company and PepsiCo. Any action taken by any of them must be retaliated by the other. An increase in advertising expenditure in

this industry by any of the following company leads to an increase in the market share of that company. For example with the reduction of PepsiCo advertising expenditure led to a fall in its market share in the beverage industry. Coke as a product is differentiated whereby it does not have a perfect substitute to it. Also the firms in this industry tend to be dependent on each other in decision making meaning a firm has to consider the actions of the other before making and pricing and production decisions/policy (Emami, 2003). In this sector there are barriers to entry mainly due the large economies of scale enjoyed by the already existing companies in the sector. For example the coke manufacturer Coca cola Company enjoys large economies of scale due to its expansive production (Coca-cola, 2011). The large capital outlay required in entering this industry in terms of fixed cost and advertising expenditure also restricts entry into the sector.

Another barrier of entry into this industry is patenting of production methods for example coca cola has patented the formula to the coke syrup which has never been revealed. Due to the fierce competition in this industry there has been competition there has been increased innovation with the introduction of sugar free and diet products as health awareness increases. Soft drinks company have also mainly in the U. K come up turbo fizz dial placed on the side of drink can meant to expand the reach of the carbonated soft drink sector. Through this application the consumers can be able to increase or reduce the number of bubbles in their drinks and also change the color of the can (Chouke, 2007; Mercer, 2007). The soft drink industry is not highly regulated but in the recent wake of health fears from the consumption of soft drinks there have been increased efforts to regulate the industry. The

regulation has been mainly focused on the schools and school going children.

For example in the U. K they announced new minimum requirements of nutrition content to be sold at schools. The schools lunch is to be free from carbonated drinks and they are also not to be sold in their tuck shops. In the U. S there has been increased advocacy to regulate the industry with health experts and consumers advocates pushing for higher taxes to be levied on these products. This is aimed at regulating the consumption of sodas. There is also increased activism against the soft drink industry with for example the Center for Science in the Public Interest (CSPI) launching a global campaign dubbed” Dump soda”. Market rules and regulation are expected to tighten as time progresses by with government being put under pressure to do so by the public(Anon., 2004). The coke product demand has not been shaken a bit even with the recent anti Coca-Cola campaigns. For example in Kenya coca cola invested 1. 2 billion Kenya shilling on a new line to meet the increasing demand. The Coca-Cola Company is estimated to have 1. 8 billion serving per day with the most consumed Coca-Cola Company product being the coke brand (Imap, 2010, appendix A-vi).

The main factors that have been driving the demand for the coke brand is first of all the weather. The demand for coca cola increases tremendously during the hot weather prompting the coca cola company to introduce experimental vending machines that can adjust their prices depending on the weather (Pondent, 2012). If the temperature goes up the vending machines automatically increases the prices. Another demographic factor

that has been driving demand are the people between the age of 55- 65 who have also been taking up coke brands mainly the diet coke and coke zero due to the health implication of the other coke products in terms of the sugar content and nutritional value. The coke zero and coke diet has also received positive responses from the other market segments as consumer tastes start to change in favor of healthful choices hence they have also taken up the healthier coke brands(Coleman 2004, p 11-12) Coca cola demand is elastic which is in contrast of the whole soft drink demand which tends to be inelastic.

The whole soft drink sector is price inelastic seeing that even when prices increase the demand will still be there as they only main alternative to soft drinks is water and people cannot consume water all the time. Coca cola though has an elastic demand as there many substitutes to the product which have almost a similar taste and satisfy are the same need. Therefore any increase in price will lead to a drop in sales as consumers will move to the alternative cheaper products. Coca cola brand also experience high cross elasticity of demand due to also the many close substitutes with is closest being Pepsi. This means that the product is highly responsive to the price changes of the substitute and any change in its prices or other products prices will quickly reflected in the amount sales (Anon, 2004, p 17-18).

Subsequently there has been a question whether coke or all the soft drinking general are essentials or luxuries. That will depend mainly on the income of the consumer and the perception also.

For example a person in the low income segment will view the product as a luxury therefore any price increase will lead to reduced sales since coke is not perceived as an essential. For a person in the higher income bracket prices changes will not affect their consumption of coke as the proportion of their income spent buying a coke is far much smaller compare to the person's income segment. But generally speaking coca cola is perceived as luxurious but a cheap luxury for that matter according to Bloomberg business weekly (Tedflow, 2012). Coke brand may not need further improvement in terms of quality as any change in the formula would prove detrimental as it was the case in 1985 at the height of cola wars when the coca cola company announced that it was changing the formula and thus also the taste. This proved unwise as protests sparked from the coca cola consumers forcing the company to revert to the original formula. The criticism was bad such that even the Cuban president Fidel Castro commented against the new formula/move.

The major improvement factor for the coke brand is mainly advertising and recently healthier coke brands. Coca Cola Company spends massive amounts in advertising and marketing activities. The marketing budget is about 2.9 billion and this has made coca cola the most valuable brand in the world. Recently also the more diet and nutritional oriented products demand has been on the rise as more and more consumers switch to more healthy products. Entry into this industry will be hard as the already existing firms largely Coca-Cola Company and PepsiCo enjoy huge amounts of economies of scale and brand loyalty from their consumers. Entry into this market would require a very innovative product to pull consumer from these two giants.

The last century has seen entry of new players but countable companies have survived. Exit also will lead to massive losses in terms of the fixed costs, and advertising expenses spent as a company tries to create a strong brand image. This makes entry and exit difficult in this industry.

The strong barriers of entry and exit in this industry make it a huge gamble to try and enter into the soft drink industry. Entry of new players has no or little pressure to the already existing companies ( Ziegler, Ellenbaker, Klehr, Pesarchick and Deichert, 2006, pg 7- 8). The future market outlook for the coke brand is not as bright as perceived in the 1990s more and more people move along with the green movement. Coca cola though has read the market future outlook well with the introduction of more healthier and nutritious coke brands as it seeks to prolong the life of its aging, over a century old brand. Also the company has invested heavily in the African market as it seeks to leverage its strong brand name in the continent.

This will sustain the products demand in the future as Africa is providing one of the fast growing economies and also producing a large middle class base. This class is expected to drive the demand for the coke products as more and more Africans adopt the western lifestyle or what is now called Americanization. This can be demonstrated by the heavy advertising for example with the launch of campaigns such as a billion reasons to believe in Africa. The company has also launched new content marketing strategy which seeks to tap into the growing digital and social websites marketing (Bullas, 2012). The move has already has been a hit. These new efforts are aimed at prolonging the brand strength and life of the coke brand therefore



the brand is expected to remain strong especially if all these efforts are successful.

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