

Cola wars continue

War



Cola wars continue: Coke and Pepsi in 2010 (HBS 9-711-462) a. Use the 5-forces framework to explain why the soft drink concentrate industry has been so profitable. The soft drink concentrate industry has been very profitable for over 100 years. The reason can easily be found by analyzing the concentrate industry using the 5-forces model. According to the 5-forces model, each industry's profitability can be assessed considering the five forces that influence the market - The rivalry among existing competitors, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, and threat of substitute products or services. Considering the rivalry among existing competitors, the rivalry is very intense. Among national concentrate producers, Coke and Pepsi claimed a combined 72% of the U. S. CSD market's sales volume. The Cola war has begun in 1950s and the competition is still ongoing. Also, the competitions in other sectors of drinks and between small concentrate producers were harsh. Next, regarding the bargaining power of suppliers, it was relatively low. The concentrate producers blend caramel coloring, phosphoric or citric acid, natural flavours, and caffeine. Since they do not require many inputs, the suppliers of concentrate producers remain profitable. The bargaining power of buyers - the bottlers - was relatively low.

The main costs components of bottlers are concentrate and syrup. However, ever since the concentrate producers such as Coke and Pepsi built a nationwide franchised bottling network, the bottlers were put under their control. Also, after the 1987 Master Bottler Contract, the concentrate industry had the right to determine concentrate price and other terms of sale. As the concentrate companies of CSD expanded into different

categories, the concentrate producers bottled some products on their own. The threat of new entrants was also relatively low. Since Coke and Pepsi had extremely high market share, it was not easy for other companies to overcome the entry barrier. Though there were other coke brands at the beginning, Coke and Pepsi has bought up all others.

Lastly, the threat of substitute products or services was also low. Though there is a growing health-consciousness among customers, Coke and Pepsi dealt with zero-calorie drinks and natural sugar ingredients. Though non-carbonated drinks such as 7-up and Dr. Pepper struggled to fight back, the market share was not enough. Also, the Coke and Pepsi have moved into non-CSD, purified water, and fruit juice segments, and have been successful.