# Cola wars continue: coke and pepsi in 2006

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Cola Wars Continue: Coke and Pepsi in 2006 1. Why is the soft drink industry so profitable? In an industry dominated by two heavyweight contenders, Coke and Pepsi, in fact, between 1996 and 2004 per capita consumption of carbonated soft drinks (CSD) remained between 52 to 54 gallons per year. Consumption grew by an average of 3% per year over the next three decades.

Fueling this growth were the increasing availability of CSD, the introduction of diet and flavored varieties, and brand extensions. There is couple of reasons why the industry is so profitable such as market share, availability and diversity and brand name and world class marketing. ? Coke and Pepsi have created an oligopoly that controls more than three-fourths of the entire industry. This insures little price competition, barriers to entry, and power to negotiate prices as well as distribution contracts that favourably affect their bottom lines.

? Soft drinks and snack foods are widely available and conveniently packaged. This contributes to profitability by increasing consumption which leads to greater sales and profits. Pepsi is also a dominate player in two of the most profitable distribution channels, convenience stores and vending machines. ? Coke and Pepsi enjoys a unique advantage over rivals in that it holds a more diversified portfolio of products including alternative beverages and non-CSD beverages and snack foods.

This insulates them from sluggish CSD sales and increases profitability. ? Pepsi and Coke has remained one of the most recognizable brands in the world and distribute some of the most popular names in the food and beverage industry. These brands include Quaker Oats, Tropicana, Lay’s chips, Aquafina, Gatorade, Doritos, Dole, Lipton and Mountain Dew, Minute Maid, PowerAde, Vitamin water, Dasani. Brand equity is a tremendous strength for Coke and Pepsi and allows them to gain more from their marketing expenditures by solidifying product loyalty. Thus both companies have increased sales revenues around 4~8% only except year 2002.

Operating profits of Coke and PepsiCo, Inc were average 29% and 21%. In addition, net profits of Coke and PepsiCo, Inc were average 21% and 13%. 2. Compare the economics of the concentrate business to the bottling business. Why is the profitability so different? The economics of the concentrate business and bottling is different from each other in terms of number and size of rivals and cost structure etc.

Concentrate business has few buyers and through its value chain compare to bottling business has many buyer and mid-way player in the soft drink industry. The concentrate manufacturing process involved a little capital investment in machinery, overhead, or labour to reduce the risks whereas bottlers involving high capital investment. Franchise agreements with soft drink industry allowed bottlers to handle the non-cola brand of other concentrate producers. It also allowed bottlers to choose whether to market new beverages introduced by a concentrate producer. Concentrate producers product cost structure is mostly based on variable costs such as advertising, promotion, market research, and bottler support however, bottler products cost constitution is mostly based on fixed costs and have higher cost leverage. Concentrate producers also took charge of negotiating customer development agreements with nationwide retailers such as Wal-Mart.

Concentrate producers collaborated to make more profitable control with bottlers, for example, raw material negotiation with suppliers and sales price negotiation with retailers. They support bottlers for sales efforts, setting standards, and suggesting operational improvements. They realized that the relationship between concentrate makers and bottlers is the most important to make maximum profit. Therefore they charged concentrate prices based on the different channels and for different packages to maximize the profit margin of both companies. 3. How has competition between Coke and Pepsi affected the industry's profits? Industry profitability lives and dies by Coke and Pepsi because they own the majority of the market share and high innovation (New flavour, health concern, new product etc).

Coke and Pepsi have pushed smaller concentrate makers into the battle by swallowing larger amounts of shelf space for their growing brands. This has reduced the number of players by capturing their volume and reducing their profitability. The cola wars also weakened small independent bottlers by applying force to upgrade plant and equipment in support of new products. As a result, in higher costs and lower margins forcing many small bottlers to fold or consolidate. In the other hand, Coke and Pepsi have acquiring a high growth and a market share with high profits. 4.

Can Coke and Pepsi sustain their profits in the wake of flattening demand and the growing popularity of non-carbonated drinks? In the wake of flattening demand and the growing popularity of non-carbonated drinks, Coke and Pepsi have many opportunities to sustain profits. Diversifying their portfolios and adding new product allows for larger margins and more marketplace opportunities. Product repositioning is an avenue of growth. Coke and Pepsi extend international business, with a primary focus in large, developing nations such as China, India, Russia, Egypt, Brazil and Indonesia.

These countries are all expected to achieve economic growth in excess of 6 % in 2008, compared to 0. 8% for the United States. Finally, alternative beverages provide means to increased sales and profitability as consumers become more health conscious. Potential growth and profit are coming from non-carbonated beverages such as juices, sport drinks and energy drinks.