Cola wars, international–coke v pepsi 1742

Stephen Brennan

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The Wall Street Journal recently did an article on how the soft-drink battleground has now turned

toward new overseas markets. While once the United States, Australia, Japan, and Western

Europe were the dominant soft-drink markets, the growth has slowed down dramatically, but they

are still important markets for Coca-Cola and Pepsi. However, Eastern Europe, Mexico, China,

Saudi Arabia, and India have become the new “ hot spots.” Both Coca-Cola and Pepsi are forming

joint bottling ventures in these nations and in other areas where they see growth potential. As we

have seen, international marketing can be very complex. Many issues have to be resolved before

a company can even consider entering uncharted foreign waters. This becomes very evident as one begins to study the international cola wars. The domestic cola war between Coca-Cola and

Pepsi is still raging. However, the two soft-drink giants also recognize that opportunities for

growth in many of the mature markets have slowed. Both Coca-Cola, which sold 10 billion cases

of soft-drinks in 1992, and Pepsi now find themselves asking, “ Where will sales of the next 10

billion cases come from?” The answer lies in the developing world, where income levels and

appetites for Western products are at an all time high.

Often, the company that gets into a foreign market first usually dominates that country’s market.

Coke patriarch Robert Woodruff realized this 50 years ago and unleashed a brilliant ploy to make

Coke the early bird in many of the major foreign markets. At the height of World War II,

Woodruff proclaimed that Awherever American boys were fighting, they’d be able to get a Coke.

By the time Pepsi tried to make its first international pitch in the 50s, Coke had already established its brand name and a powerful distribution network.

In the intervening 40 years, many new markets have emerged. In order to profit from these

markets, both Coke and Pepsi need to find ways to cut through all of the red tape that initially

prevents them from conducting business in these markets. This paper seeks to examine these

markets and the opportunities and roadblocks that lie within each.

In 1972, Pepsi signed an agreement with the Soviet Union which made it the first Western

product to be sold to consumers in Russia. This was a landmark agreement and gave Pepsi the

first-mover advantage. Presently, Pepsi has 23 plants in the former Soviet Union and is the leader

in the soft-drink industry in Russia. Pepsi outsells Coca-Cola by 6 to 1 and is seen as a local

brand. Also, Pepsi must counter trade its concentrate with Russia’s Stolichnaya vodka since

rubles are not tradable on the world market. However, Pepsi has also had some problems. There has not been an increase in brand loyalty for Pepsi since its advertising blitz in Russia, even

though it has produced commercials tailored to the Russian market and has sponsored television

concerts. On the positive side, Pepsi may be leading Coca-Cola due to the big difference in price

between the two colas. While Pepsi sells for Rb250 (25 cents), Coca-Cola sells for Rb450. For

the economy size, Pepsi sells 2 liters for Rb1, 300, but Coca-Cola sells 1. 5 liters for Rb1, 800.

Coca-Cola, on the other hand, only moved into Russia 2 years ago and is manufactured locally in

Moscow and St. Petersburg under a license. Despite investing $85 million in these two bottling

plants, they do not perceive Coca-Cola as a premium brand in the Russian market. Moreover,

they see it as a “ foreign” brand in Russia. Lastly, while Coca-Cola’s bottle and label give it a high-

class image, it is unable to capture market share.

Romania is the second largest central European market after Poland, and this makes it a hot battleground for Coca-Cola and Pepsi. When Pepsi established a bottling plant in Romania in

1965, it became the first U. S. product produced and sold in the region. Pepsi began producing

locally during the communist period and has recently decided to reorganize and retrain its local

staff. Pepsi entered into a joint venture with a local firm, Flora and Quadrant, for its Bucharest

plant, and has 5 other factories in Romania. Quadrant leases Pepsi the equipment and handles

Pepsi's distribution. In addition, Pepsi bought 500 Romanian trucks which are also used for

distribution in other countries. Moreover, Pepsi produces its bottles locally through an investment

in the glass industry. While the price of Pepsi and Coca-Cola are the same (@15 cents/bottle),

some consumers drink Pepsi because Pepsi sent Michael Jackson to Romania for a concert.

Another reason for drinking Pepsi is that it is slightly sweeter than Coca-Cola and is more suited for the sweet-toothed Romanians. Lastly, some drink Pepsi because, in the past, only top

officials were allowed to drink it, but now everyone can. Coca-Cola only began producing locally

in November 1991, but it is outselling all of its competitors. In 1992, Coca-Cola saw an increase

in Romania of sales by 99. 2% and outsold Pepsi by 6 to 5. While Pepsi preferred to buy its

equipment from Romania, Coca-Cola preferred to bring equipment into Romania. Also, Coca-

Cola brought 2 bottlers to Romania. One is the Leventis Group, which is privately owned. Coca-

Cola has invested almost $25 million into 2 factories. These factories are double the size of the

factory Pepsi has in Bucharest. Moreover, Coca-Cola has a partnership with a local company,

Ci-Co, in Bucharest and Brasov. Ci-Co has planned an aggressive publicity campaign and has

sponsored local sporting and cultural events. Lastly, Romanians drink Coke because it is a

powerful western symbol which was once forbidden.

Both Coca-Cola and Pepsi are trying to have their colas available in as many locations in

Eastern Europe, but at a cost which consumers would be willing to pay. The concepts which are

becoming more important in Eastern Europe include color, product attractiveness visibility, and

display quality. In addition, availability (meeting local demand by increasing production locally),

acceptability (building brand equity), and afford ability (pricing higher than local brands, but

adapting to local conditions) are the key factors for Eastern Europe. Both companies hope that

their western images and brand products will help to boost their sales. Coca-Cola has a universal

message and campaign since it feels that Eastern Europe is part of the world and should not be

treated differently. Currently, it is difficult to say who is winning the cola wars since the data from

the relatively new market research firms focusses on major cities. Pepsi had a commanding 4 to

1 lead in 1992 in the former Soviet Union. Without this area, Coca-Cola has a 17% share versus

Pepsi’s 12% share in the soft drink industry. While both companies have been in Eastern Europe

for many years, the main task now is to develop the market.