

# Coca colas operations in china marketing essay



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“Coca Cola’s operations in China evolved in response to its experiences in the Chinese market, the objectives of its partners and the Chinese government and changes in FDI regulations”

Evaluate Coca Cola’s China strategy in terms of theory (e. g. transaction cost, international strategy, dynamic positioning), the practical realities of the Chinese market and its viability

## **Introduction**

Coca Cola, like any other businesses, runs with a mission to maximize its shareowner value over time. To accomplish this mission they created value for each constraint they served which includes their customers, consumers, communities and bottlers. With one fifth of the world’s population, China is inevitably one of the best investments by Coke. Therefore they re-entered China in 1979 and eventually became China’s most trusted brand. The aim of this essay is to survey the experience they share in China’s market with respect to objectives of their partners and the FDI regulations. To determine these facts quantitatively, the market expansion strategy of Coca Cola in this region is determined in terms of theory i. e. transaction cost, dynamic positioning, international strategy, the practical realities of China’s market and its viability. The history of Coca Cola’s emergence in the market is also studied, in order to relate it with current progress and in the end the success it got in; all its strategies are discussed.

## **Coca Cola’s history**

Coca Cola marked its entry in China in the year 1920 with the bottles imported from its Philippines plant. In 1927, two bottling production plans

were opened in Shanghai and Tianjin and another in Qingdao in the year 1930. It faced a major setback after World War II when Japan invaded China and took over its plants. However, after the world war in 1946 it opened another plant in Guangzhou. In 1949, Cola had to withdraw all of its plants from china when the People's Republic of China ceased all foreign countries operations and handed over its plant to government. In December 1978, the 'open door policy' was announced by Deng Xiaoping that again allowed foreign trade and investment and then in 1979 Cola made a re-entry in China with a big-bang (ICMR, 2004).

Since 1990, Coca Cola has been making huge profits in China and had captured 50% of the Chinese beverages market till 2002. According to the leaders of Coke, their winning approach has been to "Think local, act local", which enabled them to capture markets outside the US. The local managers of Coke were encouraged to adopt strategies that best suited for their places, and regional offices were given liberty to approve local initiatives. Thus the basic strategy Coca Cola followed to capture Chinese market is the 'localization' of their product, which later proved to be a great success. (ICMR, 2004).

To achieve eminence Coke had to deal with many restrictive government policies as it had re-entered just when the foreign trade was made open in China. The insight of these policies and the struggle are discussed in detail in the further sections of this paper. Also the objectives of its partners which contributed in its emergence in China will be discussed. Another section of this paper is going to evaluate the strategies used by Coke to promote its

product and how the market conditions are in China which supports the viability of these tricks, planning and strategies of Coca Cola (ICMR, 2004).

## **Coca Cola's Re-entry and strategy in China**

To overcome high transaction costs and to adapt successfully into a different market environment, Coca Cola had gone through three stages in order to evolve into the best investment mode. Transaction costs are commonly raised by market imperfections which may be resulted by uncertainty in the market, the small numbers of market agents that are available, opportunism or bounded rationality. (Mok et al., 2002, pp 41).

In the first stage during 1979-1984, the beverage industry and the foreign investment sector in China was still tightly controlled by the government; despite Deng Xiao Ping's 'open door' policy that was implemented in 1978. Initially, foreign firms were not allowed to have their own bottling plants, so the only way for Coke to get around this was to work as a wholesaler selling the concentrate to the bottling plants that were owned by the government which were also their market agents who then became responsible for the production and distribution of Coke's products. (Weisert D., 2001). Coca Cola faced the problems of opportunism, lack of market knowledge and power and uncertainties about the market, in that they did not share the same long term strategic goal as their market agents. Coca Cola's local partners behaved passively in the company's initial setup. The agents were opportunistic in behaviour in running the bottling business. They didn't provide any incentives or plans to capture the market.

Coke did not have any management, or control rights, nor did they have any say on output levels. The lack of proper infrastructure had made it difficult to distribute the products in such a large country. There were only 3 bottling plants in 1984 and the company only had fewer than two percent market share in 1985. (Mok et al., 2002, pp 47). To succeed they would need a much more extensive beverage distribution network to move products from the manufacturers to the customers more efficiently.

During 1985-1992, Coke continued to pursue its goal of attaining management rights no matter how little shares it holds. In order to overcome the problem of bounded rationality they faced, they had set up their first joint venture with a local enterprise in Zuhai in 1985 to develop stronger relationships with the Chinese government and to hope for lower costs. From the joint ventures, Coke's operations had been steadily expanding. However, opportunism was still present as the local partners did not share the same goal as Coke did. Coke was still at a disadvantage. (Mok et al., 2002, pp 50).

To further reduce problems Coke had decided to form alliances with the Malaysia's Kerry Group and Hong Kong's Swire Group through a franchise agreement. The Swire group handled the production and distribution of Coke in Southern and Central China, while Kerry Group handled northern and interior china. Thus the partnership helped Coke in acquiring stakes in the companies. The two foreign companies were much richer compared to the previous local partners, they shared the same goal as Coke and had strong relationships with the Chinese government. It was a beneficial step forward for Coke. Coke had also provided its expertise and western skills to aid the upgrading of the local industries; this had satisfied the government and

loosened the previous restrictions. Coke had used the 'guanxi' from its partners with the Chinese officials to cut through red tape and to build operating plants at record time. Coke attained 40% of the beverage market share in the year 2000. (Mok et al., 2002, pp 51). In the early 1990s, Coke continued to negotiate for the majority shares of the bottling plants.

Alongside it had partnered in a joint venture with the Tianjin Jinmei Beverage Co. Ltd in which Coke had undergone its localization strategy where they produced a variety of local Chinese brands including non- carbonated and carbonated drinks which best suited the Chinese taste. Localization was not only about localising the bottlers and the production of the beverage, it was also linked with the inputs in manufacturing the final products and the methods of distributions.

### **Coca Cola's marketing strategy in China**

Marketing is vital for Coke to maintain its competitiveness. Marketing and advertising is designed to make customers brand loyal while nourishes consumer awareness. This helps with maintaining the long term growth. With regard to Coke's localization strategy, Coke made sure that its Chinese name had an appropriate meaning along with sounding like Coca Cola. It has created a Chinese version for its famed logo. They believed that many aspects such as music, colour and Chinese people's interests are important to bear in mind if they wanted to capture the local people's hearts. They take on innovative approaches to advertising and promotions to strive for the difference. Whenever there was a chance Coke would sponsor football games and many other types of media and activities that the Chinese are interested in to achieve maximum exposure. These also participated in SMS

campaigns and hired famous celebrities to help promote the brand. The SMS campaigns were implemented taken into account of China being the largest mobile market in the world.

Coke had to constantly keep up with the changing local trends to maintain the ability to be up to date with the Chinese taste which best suited every occasion. Coke must implement an efficient distribution channel to remain competitive. The quality of their products must no doubt be kept at its best at all times, therefore bottlers only chose certain inputs that met Coke's global standards. Coke had the intention to localize every aspect of the business from sourcing inputs, to production, sales and distribution but this had proven to be a difficult and lengthy process. The consequence from adapting this strategy is the strong market presence it has created today. With an increased sales profit since 1990, it was able to generate yearly revenue of \$1.2 billion. Without Coke the mass additional employment opportunity of over 55000 people would have been forgone and China would lose all the technological updates and trainings Coke had invested over the decades. (Idanan J., 2009).

#### Product positioning and Market segmentation

Coke's marketing campaigns were customised with the local areas since different geographic locations would contain diverse people of various ages whom share a different mindset and taste. Doing this had helped the company establish a traditional and consistent company in China.

Consumers in the rural and urban areas had a vast difference in their per capita income which affects the purchasing power in every region. There is a

large consumer potential in rural areas. So imperatively China's market should be considered to be segmented according to economic diversity. The four largest cities in China consisted of 4% of the population with only 15% of retail sales, on the other hand the small cities constituted 80% of the population with the retail market of 50%, according to 2003 statistics. (Idanan J., 2009).

### Strategic marketing mix

The Coca cola strategy is a mixture of various factors aiming to capture the global market. The strategic binding of these factors enabled it to make its presence in the target market. The following includes two of the four marketing tactics which Coke had implemented in order to achieve its significant positioning in China.

### Product

By recognising consumers' wants and needs Coca cola was able to produce diverse products which include carbonated drinks like Coke classics, Sprite, Fanta; Beers like Barq's root Beer and Dr. Pepper. It also supports the local brand names Qoo, Sensation, Tianyudi and SMART which are ready to drink (RTD) tea drinks and juice drinks to suit local preferences. The growing demand of healthy beverages had influenced it to get diversified in soft drinks sectors. Meeting the diverse demand and taste had resulted in the packaging in different sizes and shapes of glass bottles, plastic containers and cans. (Idanan J., 2009). A key to coke's success is the differentiation in products; this makes the customers coming back for more.



## Price

The pricing strategy of Coke is influenced by the strategies of its competitors. In China the biggest competitor of Coke is Pepsi and its price fluctuates according to Pepsi's pricing. However coke has always held a better position in the market due to a head start of several years which had lead Pepsi to suffer some downfalls. Still the price of Coca cola is the benchmark in the market with it costing 15 to 20 cents higher than Pepsi. This high price is supported by the brand equity of its various products in the market (Idanan J., 2009). The competition has lead to better improvements in products and more attractive promotions which are favourable to customers. Without a strong brand image consumers would choose a product with the most competitive price.

## **International Strategy**

" Think local, act local" is the international strategy which promoted persistent growth of Coca Cola in China. It adopted long term expansion strategies to localize production, build a better distribution network and to maintain a competitive product differentiation strategy which allowed it to generate a strong presence in the market with the establishment of a nationwide business. China is not the only country where Coca cola has adopted this approach; it has adopted this approach around the world over a decade. Thus the future of Coca cola in China and rest of the world depends on the success in balancing localization with a profitable productivity (Weisert D., 2001).

In its strategy the local managers were given the rights to control advertising. In China, Coca cola has used everything in its television commercials including the Chinese Zodiac animals to Spring Festivals couplets. According to a survey by AC Neilson Media International, in 2000 Coca cola became the 20th company to spend \$26. 1 million in advertising. The huge investments in marketing and innovation had ensured the company's goal to run smoothly and have proven to have made every effort to boost sales. Also in 1984, it was the first foreign company to advertise on the CCTV channel which is the central government TV station in China. Coke has consistently outspent its rivals on advertising. This approach and long advertising history has made Cola the most recognized soft-drink brand in China.

### **Current state of Coca-Cola in China**

Coke has around 400 brands of beverages which include soft drinks, coffee, tea, water, juices etc. which are spread in over 200 countries on six continents, and the marketing strategy adopted is localized to each of the market and local demand. It has numerous bottling and canning operations around the world. It is now the most valued brand name on the earth far surpassing its competitors like Pepsi. It owns world's top brands: Coca-Cola, Fanta, Sprite and Diet Coke (Workman D., 2006). Coke continues to expand its market presence, positioning and growth all over the world.

According to AC Nielson (an established market investigation institution)'s results, Coke's product series have had a share of over 50 percent in the Chinese beverage market in 2002. (Heng L., 2002) In the same year, Douglas N. Daft, CEO of Coca-Cola, explained, " Establishing short-term quarterly

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earnings guidance prevents a more meaningful focus on the strategic initiatives that a company is taking to build its business and succeed over the long run. Our share owners are best served by this because we should not run our business based on short-term expectations. We are managing this business for the long-term.” (Kothari J. et al 2006) From this statement we see that Coke is eager to maintain its dynamic market position around the world.

In the year 2003, China was the second best-selling Asian market after Japan for Coca-cola in terms of volume. Its purpose was to reach more customers in rural areas since it was a segment which had a lot of potential to boost Coke’s profits. Patrick Siewert, president of Coke’s East and South Asia Group said, “ We had grown well by reaching the top 100 cities, but how many people were we reaching? Rather than continuing to focus solely on those highly competitive urban areas, Coke must push aggressively into the rest of China and India” (ICMR, 2004).

The case-volume studies of 2005 show a double profit to Coke in Pakistan, China, Russia and Egypt (Workman D., 2006). In 2008, Coca Cola was chosen to be one of the official sponsors for the Olympics games in Beijing. This really helped strengthening the brand image and showed just how trusted the brand had become towards the Chinese.

#### Recent updates

In the most recent activities, Glenn Jordan, the President of Coca-Cola Pacific Group, said that Coke had just opened two new bottling plants in China, and they are going to promote their brand in the Shanghai World expo 2010. Also <https://assignbuster.com/coca-colas-operations-in-china-marketing-essay/>

in the past 6 months he has visited many cities in China to promote the soft drink industry and to further develop “ guanxi” with the Chinese. He is confident that the company will make huge profits in China over the coming years with the existing double-figure growth each year from the past five years (Wanxian B., 2009).

Muhtar Kent, the CEO and the chairman of The Coca-Cola co., appreciated the 4 trillion Yuan stimulus package, as a great step to encourage business development which is taken by China’s central government. It has registered a business growth of 19% in the year 2008 and will continue to grow more in future. The stimulus package will contribute to accelerate long term investment plans in China, Jordan said. Following the announcement of stimulus package in November, Coca cola decided a three year investment plan in China which was to invest \$2 billion for construction of new plants, expanding assets in China’s market and building a strong sales team. In March 2009, a research and development centre was opened in Shanghai costing \$90 million. In June, the opening of two bottling plants in Nanchang, Jiangxi province and Urumqi had cost them 210 million Yuan (Wanxian B., 2009). The expansions would further increase Coke’s geographic presence while enhancing their competitive edge in China.

The revenue growth of Coca-Cola for the year ending December 2009 can be depicted from the following table 1:

Table 1: Operating revenue of Coca-Cola year ended December 2009  
(Business Wire, 2010)

Year Ended December 31, 2009

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% Favourable / (Unfavourable)

Comparable

Unit Case

Volume

Net Revenues

Operating

Income

Currency

Neutral Operating

Income

Total Company

3

(3)

(3)

7

Eurasia & Africa

4

(6)

(3)

12

Europe

(1)

(10)

(7)

4

Latin America

6

1

(3)

15

North America

(2)

0

7

7

Pacific

7

4

2

(2)

Bottling Investments

2

(7)

(32)

23

According to the figures in table 1 from The Coca-Cola Company Report 2009 Fourth Quarter and Full Year Results, the Pacific Group registered a unit case volume growth of 7%, the net revenue growth of 4% and operating income increased by 2% in the year 2009. In China, followed by the successful launch of the company's first entry into the dairy segment i. e. Minute Maid Pulpy Super Milky, the unit case volume grew by 29 percent in the fourth quarter. (Business Wire, 2010).

In future, the \$19 million bottling plant in Mongolia will be opened in 2010 to further intensify its investments in China. As a result, around 8000 job

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opportunities will be available. This should bolster China's economy and the local community's development even further. The location of the bottling plants chosen by the company will meet the government's demand for business development and job opportunities in the central and western cities of China. With 30 years of experience in China, Coca-Cola is now well aware of the economic conditions of China and has made their strategy accordingly to meet their demands and thus promote growth (Wanxian B., 2009).

## **Conclusion**

Coca-Cola is making a strong presence internationally and is encountering a continuous growth in China even at the time of economic crisis. From our discussion above we can conclude that its operations has evolved successfully over the years in China with adapting to the local conditions to implement the best suited localization strategy which had gone hand in hand with its competitive product differentiation strategy. The localization strategy is a very important factor to Coke's success in China since it has coped well with the diversity of the Chinese culture and income levels using effective measures to get the company closer with the local communities and people. Its increased experience and knowledge in the Chinese market, better 'guanxi' with the Chinese government, the collaboration of their local and foreign partners and the strategies they applied have proven to be useful for their current and future business prosperity in China. The company is thus looking forward to attain further success in this region in years to come.



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