Cola Wars Continue: Coke and Pepsi in 2010

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**Why, Historically, Has The Concentrate Producers’ Industry Been So Profitable?**

A standing demand has been seen all the time for soft drinks when the ultimate substitute is only water. But people demand something more than only a soft drink. This means that satisfying thirst with freshness, so the wants of soft drinks create. Hence, this would be analyzed through the help of Porter’s Fiver Forces.

Porter’s Fiver Forces states the market forces are much favorable for profitability in this particular industry. The production cost of the industry is much low and it allows firms to sales products at any prices (Yoffie, & Wang, 2010).

**Porter's Five Forces Analysis**

**Bargaining Power of Buyers**

* In the beverage industry, the soft drink market is the hugest/largest group which is worth $60 billion. Three major companies control around 90% of soft drink sales of US. So, it is to earn a lot but gaining market share is not an easy job for the firms.
* Because of competitiveness, the switching cost for buyers is much lower and the difference is much small (Porter, 2018). Utilization of soft drink products is easy, so there is no need for any information.
* The volume of potential customers is very high in the industry (Deichert, et.al, 2016).

**Bargaining Power of Suppliers**

* The major distribution channel is the supermarket where companies fight to get lace for their products.
* The mass merchandisers include discounts retails and discount clubs such as Wal-Mart.
* Intense competition among key players exist and everyone sacrifices profitability to be competitive (Porter, 2018).
* The dominance of Pepsi and Coke encourage investments in machines and it creates challenges for new players.

**The Threat of New Entrants**

The entry of new entrants is not easy in the industry because;

* Supply discourages new entrants to enter.
* The existing players are well established and can beat new entrants anytime.
* Major players have gained high brand loyalty.
* The capital requirements for setting up plants is not too huge for existing industry players.
* There are huge challenges for new entrants such as competition with well-established brands, firms, hard financing, and the need for effective marketing and promotions (Deichert, et.al, 2016).

**Threats of Substitutes**

* In the soft drink industry, several substitute products are available for consumers such as water, beer, wine, juice, milk, and tea, etc.
* All firms offer substitutes themselves to keep themselves saved form outside competition. Like, Pepsi produces and offer Mug Rot Beer and Slice and Tropicana juice. While, Coke produces Barq’s and Diet Barq’s, Minute Maid, and other juice products. The market shares of the companies also increase with these offerings and eliminate the risk of substitute products.
* The industry also caters to substitute product through strong advertising, brand equity, and products availability with perfection where the products cannot be beaten by any substitute (Porter, 2018).

**Rivalry among Existing Firms**

* Coke group stated that it is an “imitator” at the time when Pepsi was launched but it became a big competitor and caused Coke’s market share badly.
* The competition is too strong between existing players because Pepsi have claimed that Coke imitated Pepsi’s taste when Coke announced that they changed the 99 years old formula.
* Pepsi focuses on advertisement and promotions with stars and other celebrities which is found very successful. This is done by Pepsi to be more competitive (Katz, 2009).
* Both Coke and Pepsi fight on fountain sales to gain higher national accounts. This has done in terms of retail channels.
* Both and even all firms in the industry decrease overall profit margins but put efforts to have a competitive advantage in the industry over others.

**Compare The Economics of The Concentrate Business to that of the Bottling Business: Why is the Profitability So Different?**

Businesses can be compared based on the exhibit provided in the case.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Factor | Concentrate | | Bottler | |
|  | **$s Per Case** | **Sales %** | **$s Per Case** | **Sales %** |
| Net Sales  Cost of Sales | 0.71  0.12 | 100  17 | 5.80  3.77 | 100  65 |
| Gross Profit | 0.59 | 83 | 2.30 | 35 |
| Sales and Delivery | 0.01 | 2 | 1.22 | 21 |
| Marketing and Advertising | 0.28 | 39 | 0.12 | 2 |
| General and Administration | 0.06 | 8 | 0.23 | 4 |
| Pre Tax Profit | 0.25 | 35 | 0.52 | 9 |

The table shows that the concentrate business is much profitable than bottling. It is because of;

1. Several bottlers in comparison with concentrate producers that raises competition and decreases margins (Deichert, et.al, 2016).
2. Huge capital costs for bottlers than the concentrates (Katz, 2009).
3. Higher production and distribution costs of bottlers (around 65% of total sales).
4. Remaining of created brand equity with concentrate manufacturers.

The profitability was much varying because;

* The decline in the number of existing bottlers from 1970 to 2000 and so on.
* Their offering of better and attractive packaging to end-users
* To anticipate new competition to enter if they cater to the bottling.

**How Has the Competition between Coke and Pepsi Affected the Industry’s Profits?**

The competition between Pepsi and Coke has affected the overall industry because they have branched out to many other markets. The revenues have hugely increased because of quality products and branching out to the food industry (Deichert, et.al, 2016).

Both have focused on differentiation in 1960/70 where Pepsi implemented bling taste test to differentiate itself from Coke.in 1990, the lower-priced strategies in supermarket channels for competition with other brands had inverse impacts on the bottlers profitability where their net profit was (-2.1 and -2.9%) “Exhibit 4” (Yoffie, & Wang, 2010).

Other ways through which the industry profits have been impacted are;

* 35 increase in use since 1970
* Achievement of annual growth of 10% by Pepsi and Coke from 1975-95.
* The brand recognition of each other because of through competition which added revenues instead of negative impacts (Katz, 2009).
* Huge market share in 2000 (around 53%).

**The Market Share**

Coke was much leading which has a 53% market share in 1999 in the global market while Pepsi had only 21% at the time. Coke had taken advantage of late market entry by Pepsi which also put huge disadvantage for Pepsi in the United States market. Pepsi tries to cover it through the more aggressive competition in the emerging economies where Coke’s supremacy is not too well. The international competition is going to be more marked because of the growth of emerging markets (Katz, 2009).

**Can Coke And Pepsi Sustain Their Profits In The Wake Of Flattening Demand And The Growing Popularity Of Non-CSDs? Why or Why Not?**

Yes! Pepsi and Coke can keep their profits maintained in the industry because;

* They have strong brand equity because of their long-lasting business in the industry.
* They can diversify their business because of their strong brands.
* They both have no threats of any new entrant.
* New potential opportunities raised because of globalization
* Huge potential for growth and success in the US market.
* Existence of diversification for the companies and they can switch to non-carbonated drinks. So that they would have more opportunities to grow (Yoffie, & Wang, 2010).

**References**

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