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Cola Wars Continue: Coke and Pepsi in 2010

**Question No 1**

A upright demand has been perceived every time for soft drinks when the definitive substitute is water. But people want rather extra than just a soft drink.

Porter’s Fiver Forces states the marketplace powers are much satisfactory for success. Production costs of the industry are low and it lets companies to sell products on their own choiced prices.

**Porter's Five Forces Analysis**

Bargaining Power of Buyers

* Because of competitiveness, the switching cost for buyers is much lower and the alteration is much small.
* The market (soft-drink) is the hugest cluster 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 (Katz, P.N. 263).
* The volume of potential customers is very high in the industry.

Bargaining Power of Suppliers

* The mass merchandisers include discounts retails and discount clubs such as Wal-Mart.
* The major delivery network is super-market, the place where companies contest to get their products placed.
* Intense competition among key players exist and everyone sacrifices profitability to be competitive (Porter, 2018).

The Threat of New Entrants

Entrance of novel firms to industry is difficult because;

* There are huge challenges for new entrants such as competition with well-established brands and hard financing etc.
* Major players have gained high brand loyalty.
* The well established existing players that can beat new entrants anytime.
* The capital requirements is not too huge for existing industry players (Katz, P.N. 263).

Threats of Substitutes

* All firms offer substitutes themselves to keep themselves saved form outside competition. Like, Pepsi offer Mug Rot Beer, Slice and Tropicana juice. Whereas, Coke crops Barq’s and Diet Barq’s etc.
* In the soft drink industry, several substitute products are available for consumers such as water, beer, wine, juice, milk, and tea, etc (Katz, P.N. 263).
* The industry also caters to substitute product through strong advertising, brand equity, and products availability.

Rivalry among Existing Firms

* The competition is too strong between existing players because Pepsi have claimed that Coke imitated Pepsi’s taste when Coke proclaimed that they transformed the 99 years ancient method.
* Firms in the industry decrease overall profit margins but put efforts to have a competitive advantage (Yoffie, & Wang, N.P).
* 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.

**Question No 2**

Exhibit of the Case

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Factor** | **Concentrate** | | **Bottler** | |
|  | Per Case Dollars | Sales %tage | Per Case Dollars | Sales %tage |
| Net Sales  Sales Cost | 0.71  0.12 | 100  17 | 5.80  3.77 | 100  65 |
| Revenue (Gross) | 0.59 | 83 | 2.30 | 35 |
| Delivery and Sales | 0.01 | 2 | 1.22 | 21 |
| Marketing and Promotion | 0.28 | 39 | 0.12 | 2 |
| Overall and Admin | 0.06 | 8 | 0.23 | 4 |
| Pre Tariff Income | 0.25 | 35 | 0.52 | 9 |

The table shows that concentrate is greatly gainful than bottling. It is because of;

1. Higher production and distribution costs of bottlers (around 65% of total sales).
2. Several bottlers exist than concentrate manufacturers that raises rivalry.
3. Huge capital costs for bottlers than the concentrates.

The profitability was much varying because;

* Their offering of better and attractive packaging to end-users
* The decline of bottlers from 1970 to 2000 and so on (Katz, P.N. 263).
* To anticipate new competition to enter if they cater to the bottling.

**Question No 3**

Rivalry amid Pepsi & Coke has impacted overall industry for the reason that both have taken to switch out to outside markets. The revenues have increased because of superiority products and switch out to nutrition business.

Both have focused on differentiation in 1960/70 where Pepsi implemented bling taste test to differentiate itself from Coke (Yoffie, & Wang, N.P). 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”.

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

* Achievement of annual growth of 10% by Pepsi and Coke from 1975 to 1995.
* 35% increase in use since 1970
* Huge market share in 2000 (around 53%).

The Market Share

Coke was much leading which has a market share of 54% in the nineties in the global marketplace while Pepsi had only 21%. Coke had taken advantage of late market entry by Pepsi. Pepsi tries to cover it in the economies where Coke’s supremacy is not well (Katz, P.N. 263). The international competition is more noticeable because of the growth of emerging markets.

**Question No 4**

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

* Pepsi and Coke have strong brand equity because of their long-lasting business in the industry.
* New potential opportunities raised because of globalization
* Both have no threats of any new entrant.
* Existence of diversification and they can switch to non-carbonated drinks
* Potential for growth and success in the US market (Yoffie, & Wang, N.P).

Work Cited

Katz, Barbara Goody. "Competition in the Soft Drink Industry." Antitrust Bull. 24 (1979): 263.

Yoffie, David B., and Renee Kim. Cola wars continue: Coke and Pepsi in 2010. Harvard Business School Publishing, 2011.