



SHANGHAITECH UNIVERSITY

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# Business Strategy Homework 1

## Case Analysis of Cola - War

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## 1 Part I Definition & Description

Define and describe the industry. What industry does Coke and Pepsi mainly compete in?

- **Carbonated Soft Drink (CSD) Industry in the United States.**
- CSDs consisted of a flavor base (called “concentrate ” ), a sweetener<sup>1</sup>, and carbonated water. The production and distribution of CSDs involved four major participants: concentrate producers, bottlers, retail channels, and suppliers.
- Coke and Pepsi mainly compete in **Concentrate Producer.**

## 2 Part II Five Forces Analysis

### 2.1 Key Barrier to Entry

HIGH

- 1) Customer switch cost is low, they have a lot of choices.
- 2) Existing companies, such as Coca-Cola and Pepsi have a larger number of sellers, their brand is well-known to all.
- 3) Unequal access to distribution channels, considering the weakness of bottler, newcomers have some drawbacks.
- 4) Slow industry growth, it was mentioned in the case (David B. Yoffie, Renee Kim 2) that the market share dropped from 71% in 1990 to 55% in 2009, which is not attractive to potential newcomers.

### 2.2 Supplier Power

LOW

- 1) Industry participants switching cost is low, it is not difficult for companies to switch to competing suppliers.
- 2) A lot of substitutes for supplier products.
- 3) Suppliers especially bottlers depend heavily on the industry.

### 2.3 Rivalry

LOW

- 1) Product has great differentiation.
- 2) Though industry growth slows down, it's hard for rivals to take shares from existing large companies.
- 3) Rivals have diverse approaches, they can enter other industry with similar ingredients.

### 2.4 Buyer Power

LOW

- 1) High switching cost, some customers of certain food stores or convenience are accustomed to CSD.
- 2) Products in CSD industry differentiated a lot from each other.

### 2.5 Threat of Substitutes

Relatively Higher.

- 1) Substitute close to CSD [exhibit1]
- 2) Energy drinks' performance are really good.

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<sup>1</sup>The sweetener may be sugar, syrup, fruit juice or sugar substitutes such as aspartame.



### 3 Part III analysis of the strength of industry forces

Highly competition in CSD. More people choose non-CSD due to requirement to health life. Other non-CSD try to the CSD will decreases in short period but in the long term the CSD-industry will keep in certain level since some customers. It has secret recipes, which is hard to imitate. In our prediction, the area is very profitable. And according to our research, it is consistent with the reality.

### 4 Part IV dynamic thinking

The Buyer Power is changing the most, specifically, by the development of Internet, products sold online occupy a large proportion. In the other words, buyer can use their advantage to dominate the market.

### 5 Part V Response

- 1) Broaden the online market, focus on online advertising, and strive to attract more young people
- 2) Produce healthy coca-cola with "low sugar", "zero fat", and "zero calories"

### 6 Exhibit1

	2002	2004	2006	2007	2008	2009
Packaged water	3,221.6	3,785.6	4,588.1	4,847.2	4,712.1	4,588.9
Juice & juice drinks	3,030.5	3,034.2	2,612.2	2,534.9	2,512.4	2,498.8
Sports drinks	488.1	620.5	912.3	950.4	856.9	843.3
Ready-to-drink tea	430.7	455.2	556.6	625.4	623.7	706.1
Energy drinks	28.9	63.7	135.3	177.0	217.3	218.0

Source: Compiled from estimates provided by beverage industry sources, September 2010. One case is equivalent to 192 oz.

## Five Forces Worksheet

### Key Barriers to Entry

List the ***Possible New Entrants*** in the CSD industry. Then, below the list, indicate a few factors that you feel influence the likelihood that a firm will enter. Make your assessment about the entry barriers of the industry.

Low entry barrier,  
It's mentioned that it involves little capital investment in machinery.  
Customer switching cost is low, customer can switch to another kind of drink easily.  
The market share dropped from 71% in 1990 to 55% in 2009.

### Supplier Power

List the ***Suppliers*** in the CSD industry- what are the key inputs that firms must rely on? Then, below the list, indicate a few factors that you feel drive the differences in their ability to charge high prices. Make your assessment of the power of suppliers.

Raw material covered in secret recipe (Sugar, Water), Concentrate container (Glass, Plastics)

Low bargaining power

### Rivalry

List the ***Rivals*** in CSD industry. Put them in the order that you estimate they would compete more directly with Coca-Cola. Then, below the list, indicate a few factors that influence your assessment of the rivalry of the industry.

Exhibit 7 reflect existed competitors' market share in 2000 and 2004, though Coca-Cola's annual share decrease a little bit, it still has high market share.

### Buyer Power

List the ***buyers*** in the CSD industry. Then, below the list, indicate a few factors that you feel drive the differences in willingness to pay. Make your assessment of the buyer power of the industry.

Retail Channels (Fountains: Food Stores, Convenience), Bottlers

Retail Channel: certain degree of bargaining power, but low

Bottlers: low bargaining power

### Threat of Substitutes

List several types/categories of ***Substitutes*** for the CSD industry - what alternatives might buyers rely on? Then, below the list, indicate a few factors that you feel make some more comparable. Make your assessment of the level of the threat of substitutes for this industry.

Beer, Milk, Coffee, Bottled water...  
Though the differentiation between products are high, there are massive kinds of substitute.