



VS



Cola Wars Continue:

Coke and Pepsi in 2010

Marketing Strategy – Jim Prost

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Situation Audit

Between 1975 and the mid-1990s the most intense battles in the Coke and Pepsi COLA WARS were fought over the \$74 billion carbonated soft drink (CSD) industry

Coke and Pepsi claimed 72% of CSD market sales

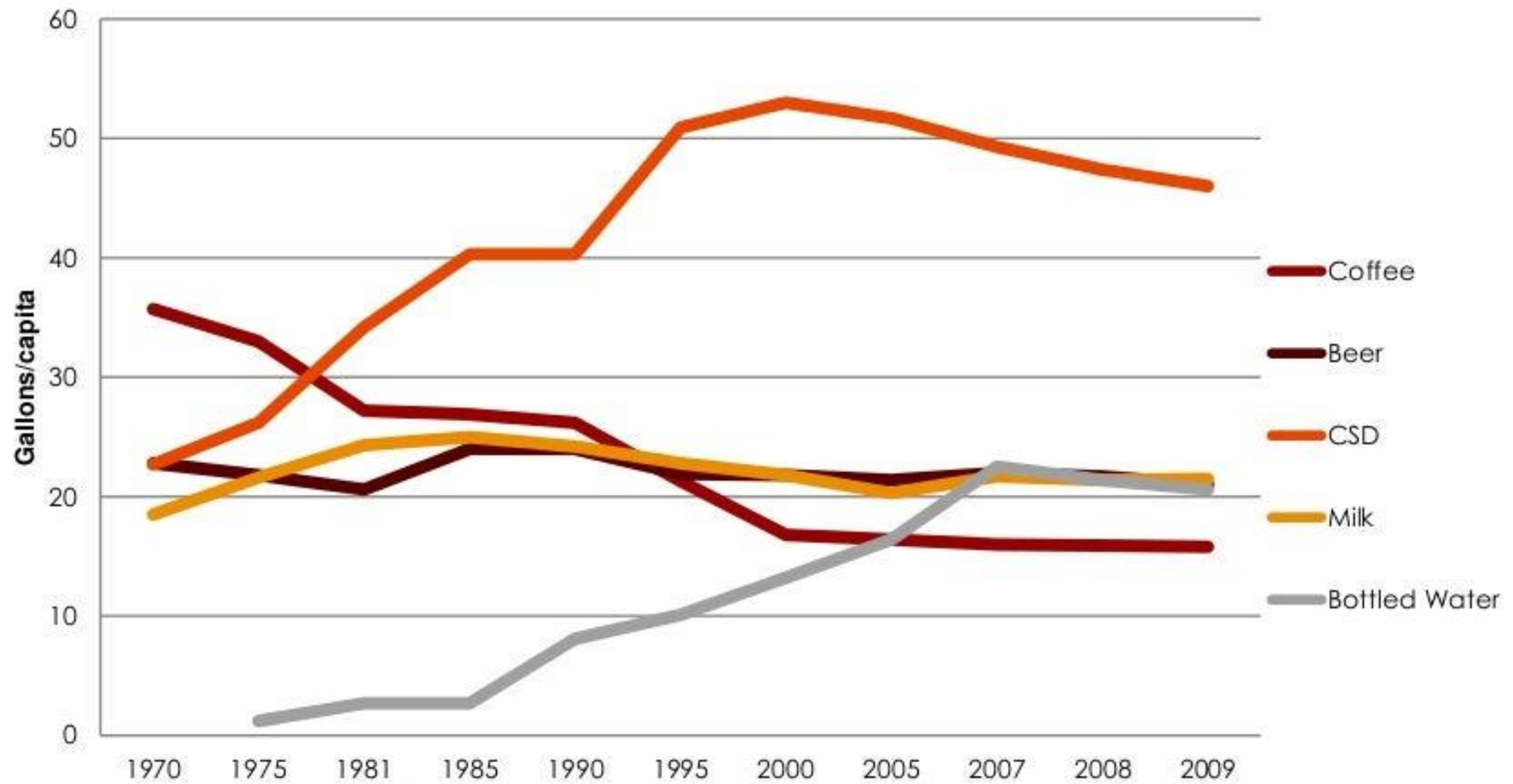
The CSD industry achieved an average annual growth of approximately 10% in the U.S. and was dominated by the cola segment

In the early 2000's the per capita CSD consumption started to decline from 53 gallons in 2000 (71% of market) to 46 gallons (55% of market) in 2009

The decline in CSD consumption was mirrored by an increase in consumer demand for non-CSD beverages



U.S. Beverage Consumption



Historical Timeline (Pre-Cola Wars)


Coca-Cola

1886-John S. Pemberton develops original recipe



- Big name endorsements
- Iconic contour bottle
- Bottling plants in Europe and the Philippines
- Robert Woodruff named CEO



- Emerges as cola market front-runner
-  registered trademark
- Price raised from a nickel to a dime



- Diversifies offerings (Sprite, Tab)
- Remains #1 in national cola sales

1886-1899

1900-1929

1930-1959

1960-1973

1898-Caleb Brodham creates Pepsi

BRAD'S DRINK



- Franchises in 24 states
- Files for bankruptcy



- Second bankruptcy
- Acquires sugar plantation in Cuba
- Rebounds by marketing product value
- Becomes second in the cola market
- "Beat Coke" campaign



- Diversifies offerings (Mountain Dew)
- Merges with Frito-Lay (PepsiCo) & expands into the snack food business



Historical Timeline (Cola Wars and Beyond)



- High-fructose corn syrup replaces sugar
- Diet Coke introduced, boosts profits
- New Coke fails, Coca Cola Classic returns
- Coca Cola Enterprises established
- Maintains lead in cola market share

COLA War Years 1974-1999

- The "Pepsi Challenge"
- Pepsi Lite (1 Calorie) introduced
- Enters fast-food business
- Outpaces Coke in food store sales
- High-fructose corn syrup replaces sugar
- Pepsi Bottling Company goes public



- In response to federal nutrition guidelines and public concern with diet and obesity offers alternative low calorie beverages
- Wins Subway account, retains exclusive deals with Burger King and McDonalds
- Holds big lead over Pepsi in cola market

2000-2010

- In response to federal nutrition guidelines and public concern with diet and obesity offers alternative low calorie beverages
- Supplies all Taco Bell, KFCs and most Pizza Huts
- Snack food lines very profitable



4Ps Analysis

PRODUCT

- Carbonated soft drinks
- Non-carbonated soft drinks

PLACE

- Retail channels
- Fountain Outlets
- Vending Machines
- Mass merchandise



PRICE

- Pepsi value proposition
- Coke the "premium" brand

PROMOTION

- Investment in Trademarks
- Retail Shelf Space
- Ad Campaigns

Problem Statement

Changes in U.S. consumer preferences lead to a decline in CSD sales and the emergence of non-CSDs.

1. How should Coke and Pepsi respond to these changes in consumer preferences?
2. In what ways can Coke and Pepsi boost CSD sales while competing in the growing non-CSD category, thereby ensuring sustainable growth and profitability?



Critical Issues

Sales

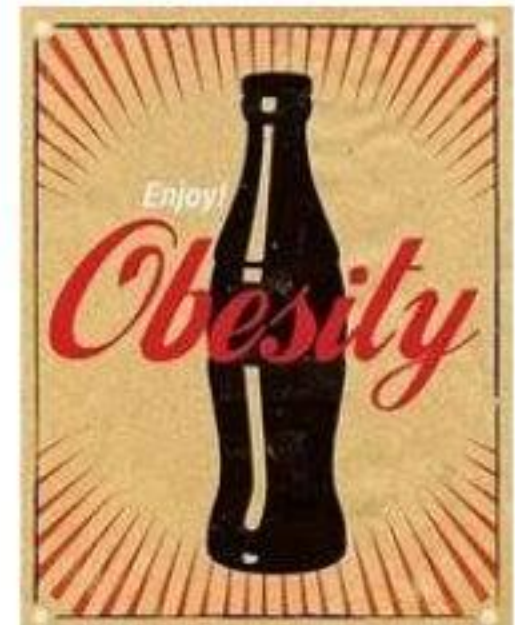
- Declining CSD sales, including Cola in the US
 - Emerge of private labels
 - Health Issues

Profitability

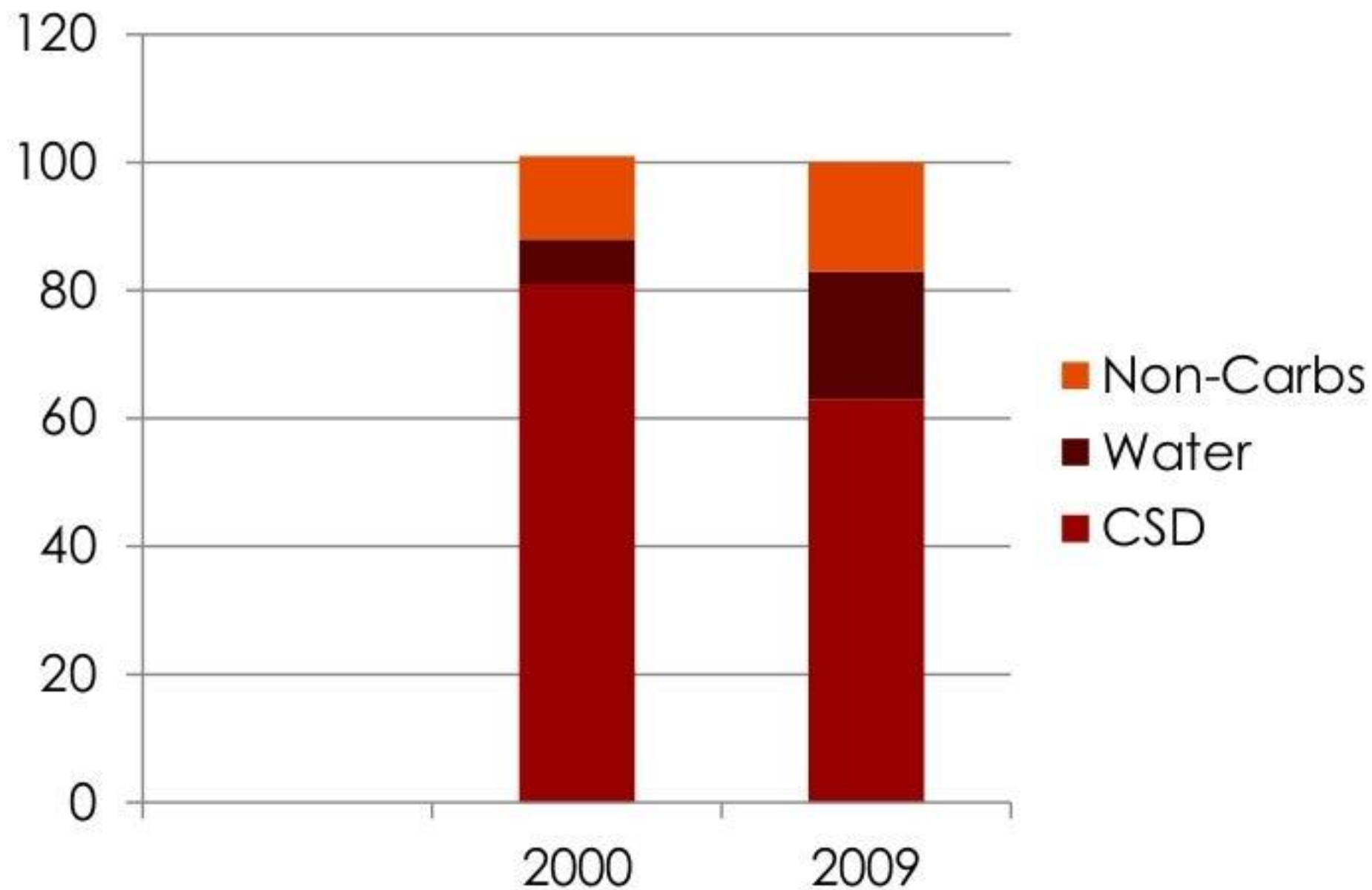
- Price pressure from the mass merchandises
- More product variety = increase in distribution and sales costs

Market Growth

- New products: cannibalism
- Each local market is different



U.S. Non-alcoholic beverage volume (%)



Strategic Analysis - S.W.O.T



S.W.O.T - Strengths



- Most valuable brand for 13 years
- World's largest in beverages: 15 billion dollar brands
- Diversification: 500+ brands, 200 countries
- Extensive global distribution network
- Leader in fountain accounts
- Forward integration: power of supplier and buyer (90%)
- Strong in emerging markets: China, Brazil, Eastern Europe

- 22nd most valuable brand
- 2nd largest F&B in the world, 22 billion dollar brands
- Diversification: "The power of one"
- Extensive global distribution network
- Leader in non-CSD
- Forward integration: 80 %
- Successful marketing campaigns: celebrity endorsements

S.W.O.T - Weaknesses



- Declining market share since 2000
- Negative publicity
- CSD focus: only 32% non-CSD share
- Price pressure from mass retailers (Wal-Mart) : 40% of U.S. packaged sales

- Declining market share in bev.
- Negative publicity
- Overdependence on U.S. markets: 50% of total sales
- Low market share in fountain accounts: 20% vs. Coke's 69%
- Price pressure from mass retailers: 12% of revenue(Wal-Mart)

S.W.O.T - Opportunities



- Expand non-CSD: juice, sport, energy, bottled water
VitaminWater, Odwalla (Coke), Gatorade, Naked (Pepsi)
- Expand and modify CSD line: Stevia
Sprite Green (Coke), Pepsi Next, Trop50 (Pepsi)
- Global expansion in emerging markets: India, China, Brazil (Coke) Russia (Pepsi)
- Innovative offerings tailored to local tastes
Sprite Tea (Coke), herb drinks (Pepsi)
- Growing nutritious snacks product markets

S.W.O.T - Threats



- Changing consumer tastes and preferences
- Competition with each other
- Threat of substitutes
- Price pressure from mass retailers
- Price pressure from int'l bottlers
- Government restrictions in U.S. and abroad

Identification of Alternatives

Investment Strategy	Action	
1. Status Quo	Maintain status Quo “Milk” CSD	
2. Market Development	Focus abroad Bottler control/ownership Streamline “Milk” CSD	
3. Product Development	Diversify lines Modify CSD, re-position Develop “complements” “Milk” CSD and discontinue “dogs”	
4. Market Penetration & Market Development & Product Development	All of the above	

Analysis of Alternatives

Criteria	Weight	(1) Status Quo	(2) Market Development	(3) Product Development	(4) Market Penetration + 2 + 3
Profitability	0.15	4	4	3	4
Sales and market share	0.25	3	5	4	5
Customer needs	0.25	2	3	5	5
Brand Image/ Corporate Image	0.20	2	3	4	5
Corporate Mission & Vision: "6Ps" <i>Coca-Cola</i> "Performance with Purpose"  pepsi	0.15	1	2	4	5

Total: 1 2.4 3.5 4.1 → **4.85** ←

Recommendations CSD Market



- Company image+ “healthy” choices
- Focus on core products:
 - US Market: Zero/Diet + Lite
 - Global market: leverage Classic brand
- Access to distribution overseas

Recommendations non-CSD Market

The Coca-Cola logo, featuring the brand name in its signature script font.The Pepsi logo, consisting of a circular emblem with red, white, and blue wavy stripes, followed by the word "pepsi" in a lowercase, sans-serif font.

- Sports and energy drinks
- Re-ignite/innovate bottled water
- Engage the “green” consumer
- Control of production and distribution
- Healthy+ convenient choices for busy lifestyles

Implementation

CSD Market

- Cost control measures (plants, process management, consolidation)
- Ads aimed at re-capturing gender/generational market share
- Diet/Zero and other lower-calorie CSD products in EU + Asia
- Remove questionable ingredients from products sold in the US
- Pursue high visibility sponsorships

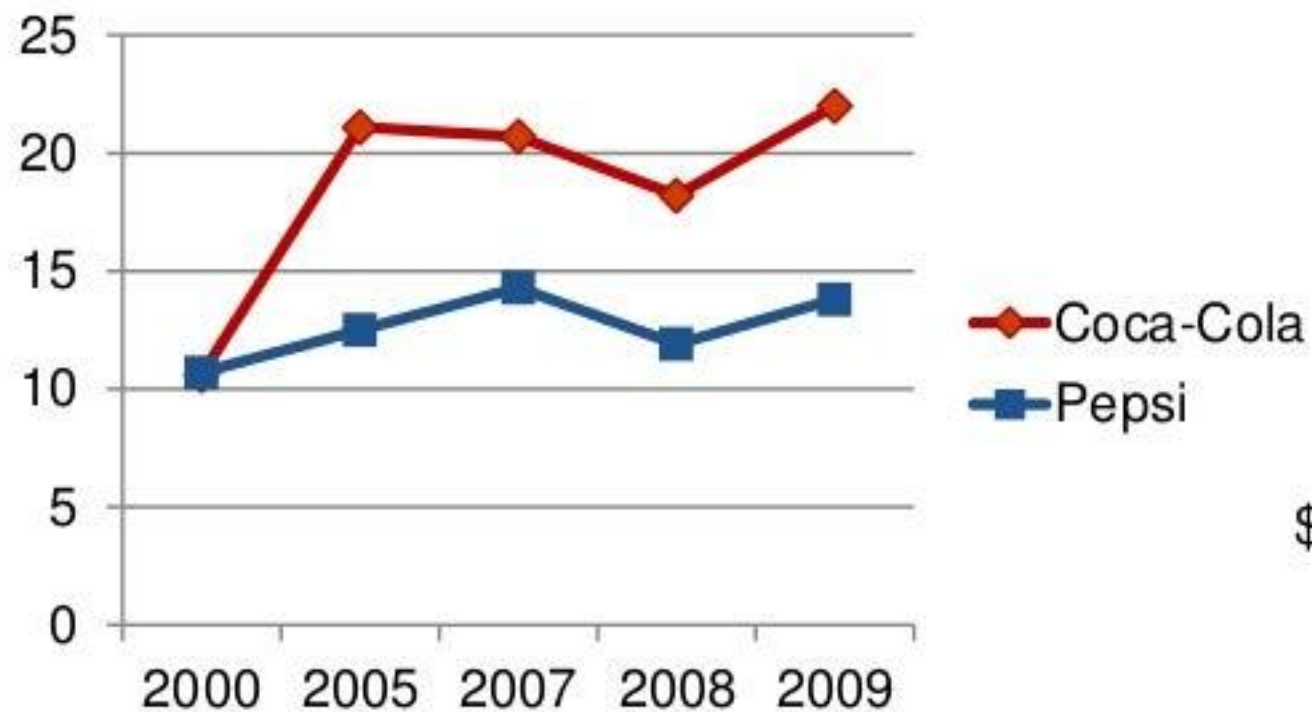
Non- CSD Market

- Health education campaign on non-CSD products
- Improve image + environmental-friendly packaging
- CSR reports and CSR transparency
- Market research: innovation + product development opportunities
- Access to distribution

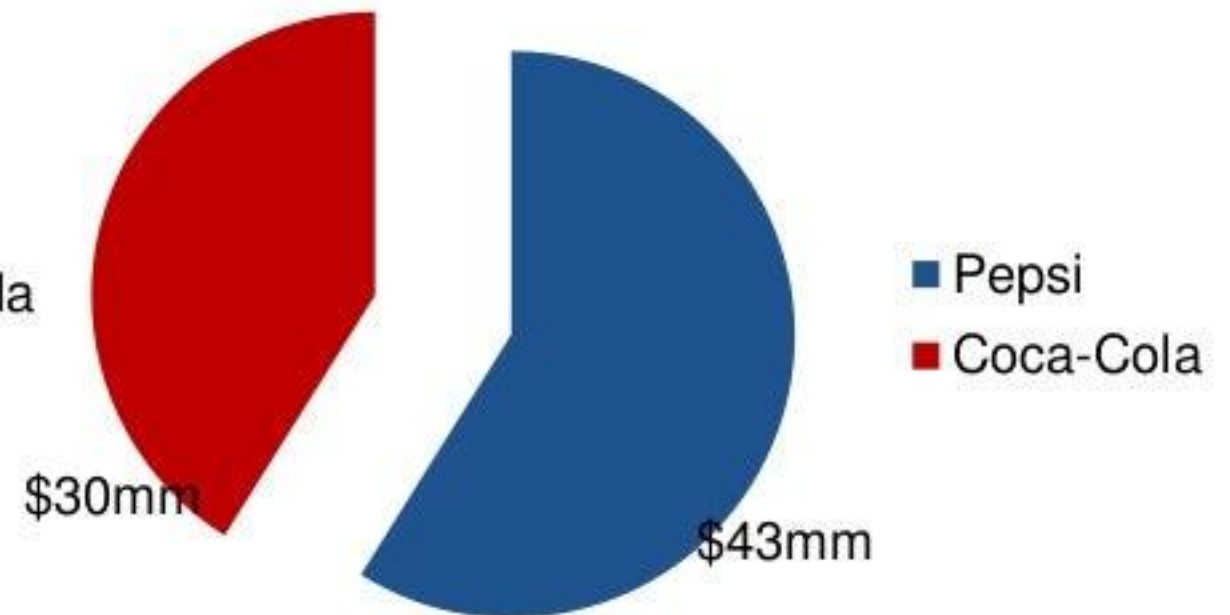


Budget

Net profit/sales



Total Sales



Non CSD shares

