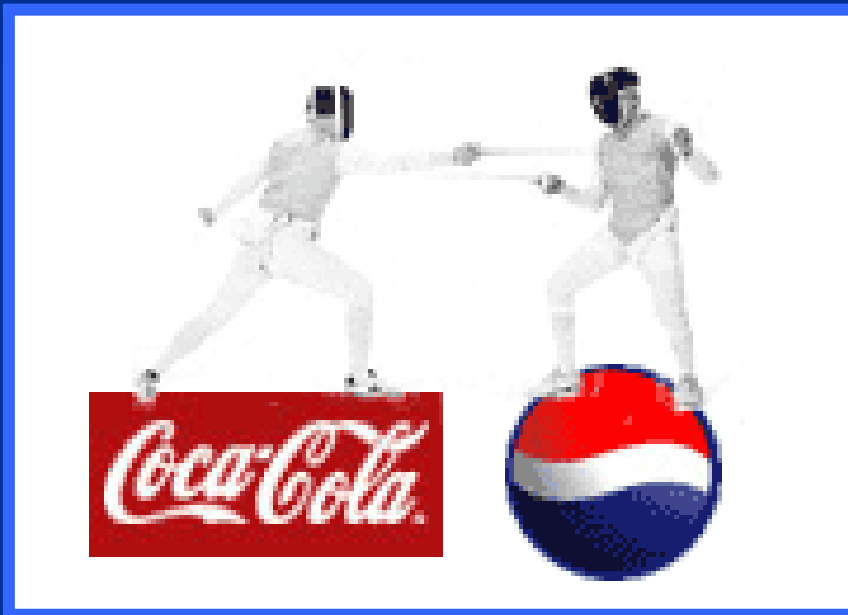


# Coke vs. Pepsi



Ed Crawford

Jennifer Merchant

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MBA 795

# Introduction

- Industry Analysis
- Finance Strategy
- Products
- Organizational Structure
- Marketing Strategy
- Distribution Strategy
- Globalization
- SWOT
- Conclusion



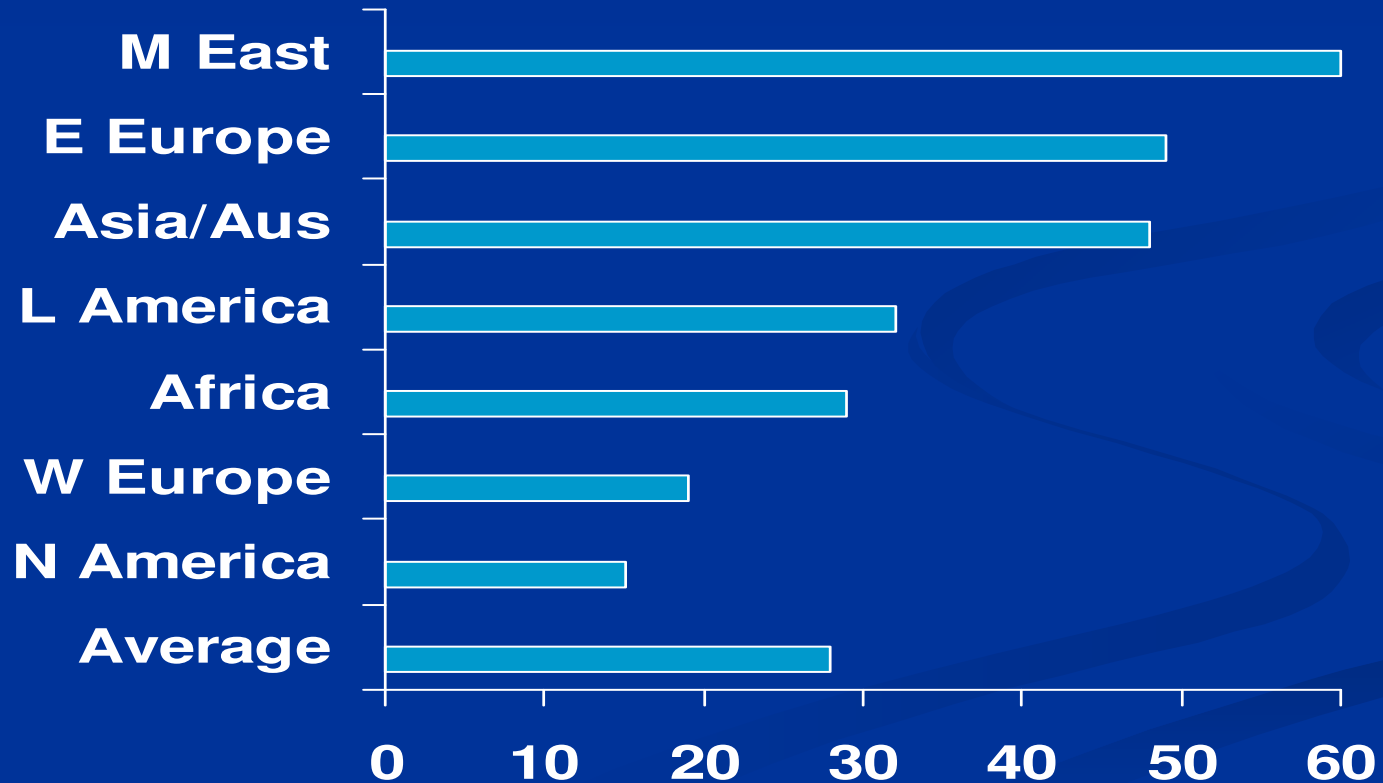
# The Soft Drink Industry at the Start of the 21<sup>st</sup> Century

- The United States with 27%, but Saturated
- 2002 worldwide consumption of soft drinks

Region	Retail volume, liters per head
N. America	157.2 (14 oz pppd)
L. America	59.2
W. Europe	49.4
E. Europe	22.0
Asia Pacific	4.3

# Continues

- Growth wise....(1996-2001)



# Continues..

- Despite the market being essentially mature, SD sales in the US showed sustained value and volume growth over the 2001-2005 period, which is forecast to continue during the next ten years
- Total revenues: \$97.1 B in 2005
- Cash Cow: Carbonated drinks; \$64.5 B in 2005

# Market Value

- US SD market grew by 2.3% in 2005

Year	\$ billion	% Growth
2001	88.6	
2002	90.8	2.4%
2003	92.9	2.3%
2004	94.9	2.2%
2005	97.1	2.3%
CAGR		2.3%

# Market segmentation I

Category	% Share
Carbonates	66.4%
Bottled water	15.3%
Juices	10.4%
Functional drinks	5.3%
RTD tea & coffee	2.4%
Concentrates	0.1%
Total	100%

# Market segmentation II

Geography	% Share
Europe	38.5%
US	29.4%
Asia-Pacific	20.0%
Rest of the World	12.1%
Total	100.0%

# Market Share

- US SD market share: % Share, by volume, 2005

Company	% Share
The Coca-Cola Company	30.0%
PepsiCo, Inc.	22.6%
Cadbury Schweppes	10.6%
Private Label	0.7%
Other	36.2%
Total	100%

# Competitions

- Other major beverage companies (in billions)

Company	Brands	2005 sales
Nestle Waters	Perrier, Pellegrino, Aquarel	\$5.8
Cadbury Schweppes	A&W Root Beer, Squirt, RC	5.0
Dannon World Water	Evian	3.5
Cott	Store Brands	1.1
National Beverage	Faygo, Shasta, Big Shot	.6
Northland Cranberries	Seneca, TreeSweet, Awake	.2

# Alternative Beverage Consumption

- Hot drinks (Canned and bottled tea)
- Milk
- Bottled-water
- Energy drinks



# Health Issues

- Obesity issues arose in Asian Market
- Health Issues arose in U.S Market

# Commercial Break



# Porter's Five Forces

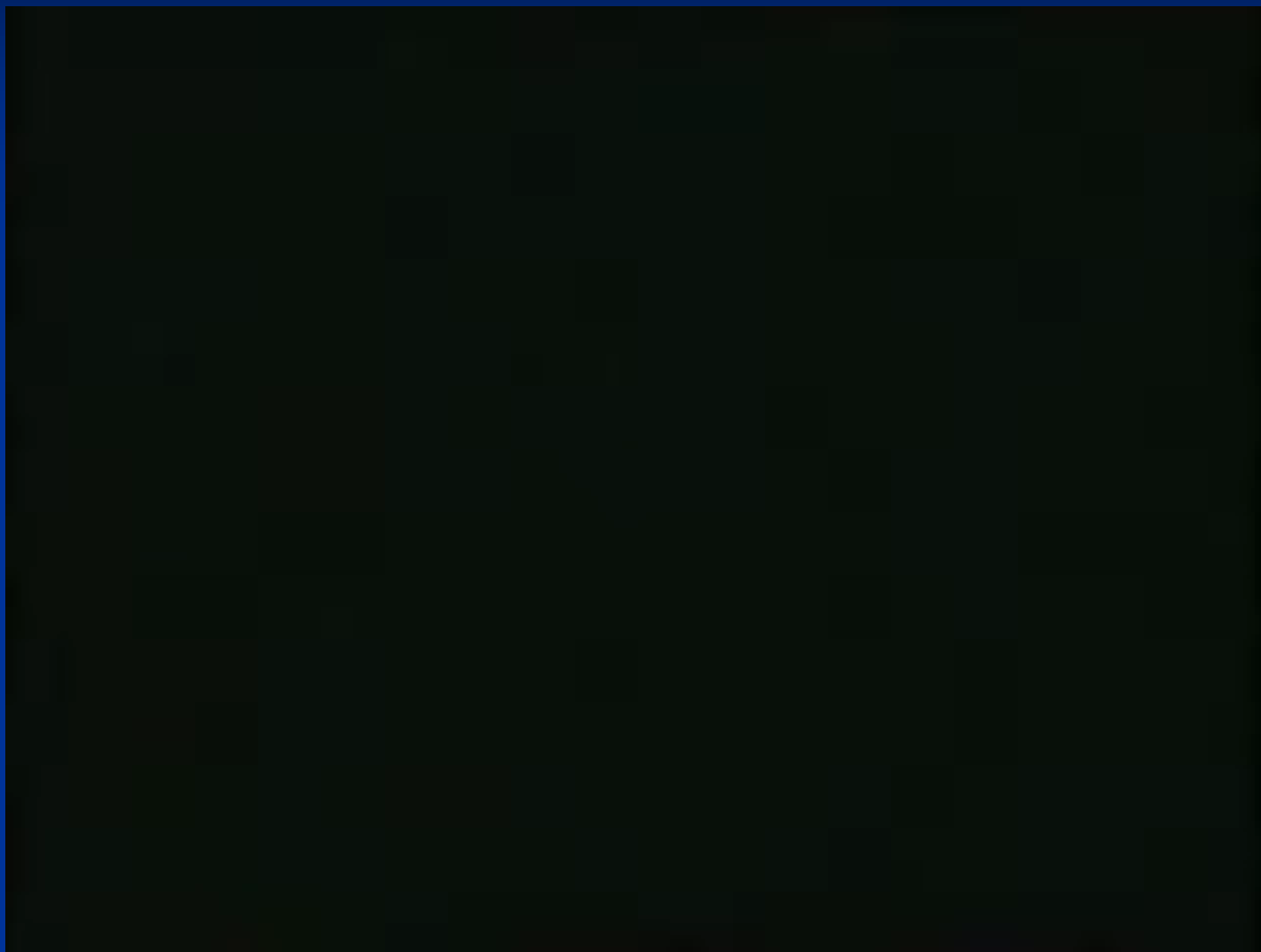
- Porter's 5 Forces tool is a simple but powerful tool for understanding where power lies in a business situation
- Porter's 5 Forces are useful, because it helps you understand both the strength of your current competitive position, and the strength of a position you're looking to move into

# Porter's Five Forces

- Supplier Power
- Buyer Power
- Competitive Rivalry
- Threat of Substitution
- Threat of New Entry



# Commercial Break



# Exciting Financial Statistics

4/5/2006	Coke (KO)	Pepsi (PEP)
Market Cap	<b>99.33B</b>	95.91B
Profit Margin	<b>21.09%</b>	12.52%
Operating Margin	<b>26.03%</b>	18.11%
ROA	<b>13.75%</b>	13.51%
ROE	<b>30.18%</b>	29.37%

# Exciting Financial Statistics



# Exciting Financial Statistics

4/5/2006	52 Week Change
Coke (KO)	0.53%
Pepsi (PEP)	9.08%
S&P 500	10.54%

# Exciting Financial Statistics

4/5/2006 Beta

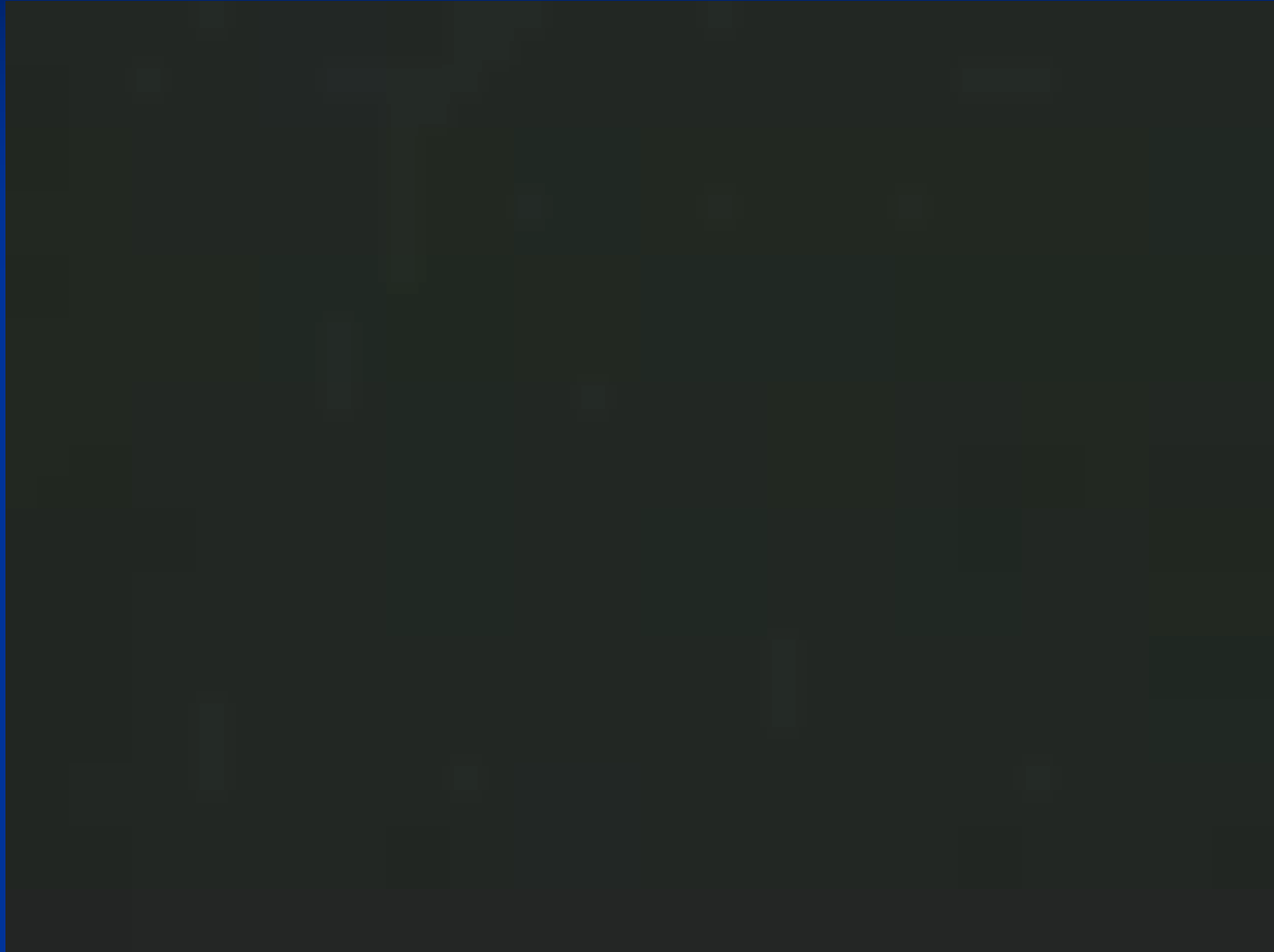
Coke (KO)

0.94

Pepsi (PEP)

0.28

# Commercial Break



# Coke Brand Portfolio

Core US Brands: Coca-Cola, Diet Coke, Fanta, Sprite, Dasani, Odwalla, Minute Maid, and Powerade

Brand extensions: Vanilla Coke, Coke with Lime, Cherry Coke

International Brands: Crush Sarsi, Sprite Ice, Fanta Oranggo, & Qoo

# Pepsi Products Portfolio

- Frito-Lay (North America )
- Pepsi (North America )
- Quaker (North America )
- International Products



# Frito-Lay Brands (North America)

- Lay's Potato Chips
- Ruffles
- Doritos
- Cheetos



# Pepsi-Cola Brands (North America)

- Pepsi
- Mountain Dew
- Gatorade
- Tropicana
- Aquafina



# Quaker Brands (North America)

- Life Cereal
- Quaker Oats
- Aunt Jemima
- Rice A Roni



# International Products

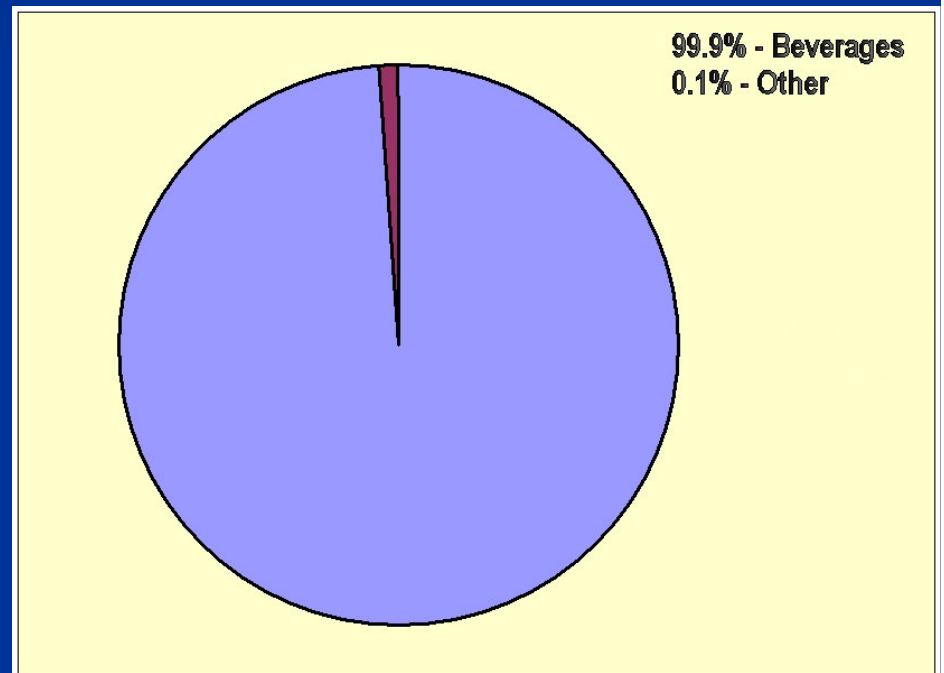
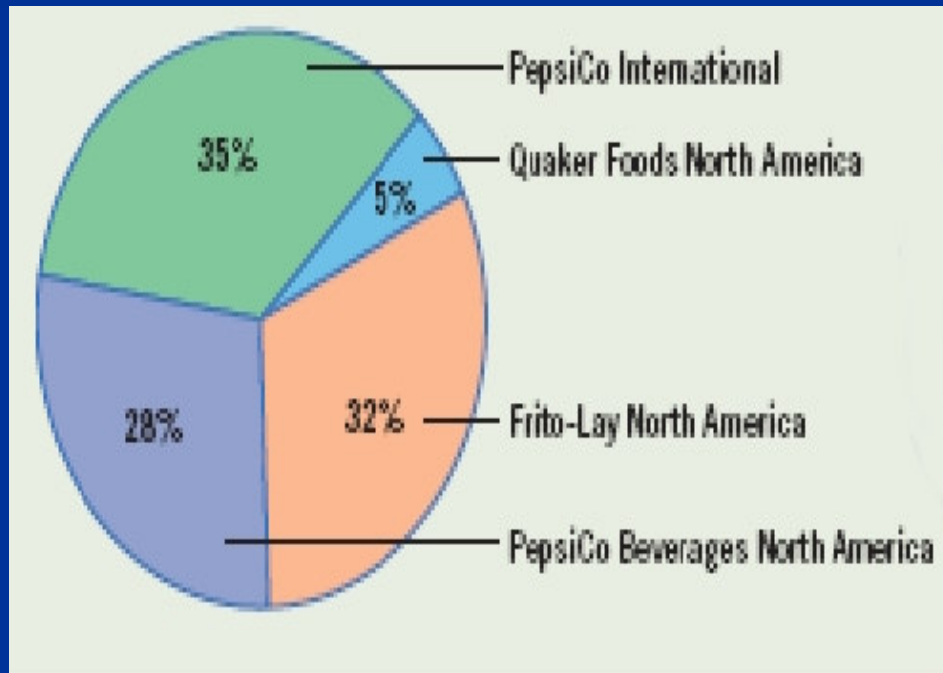
- Lays
  - Seaweed
  - Ketchup
- 7UP



# Products Portfolio

- Net Revenue – Pepsi
- Total: \$32,562

- Net Revenue – Coke
- Total: \$23,104



# Products Portfolio

- What generic strategies are being used?
- Whose strategy is better?
- How should the other react?
- What opportunities should Coke pursue?
- What opportunities should Pepsi pursue?

# Commercial Break



# Coke Organizational Structure

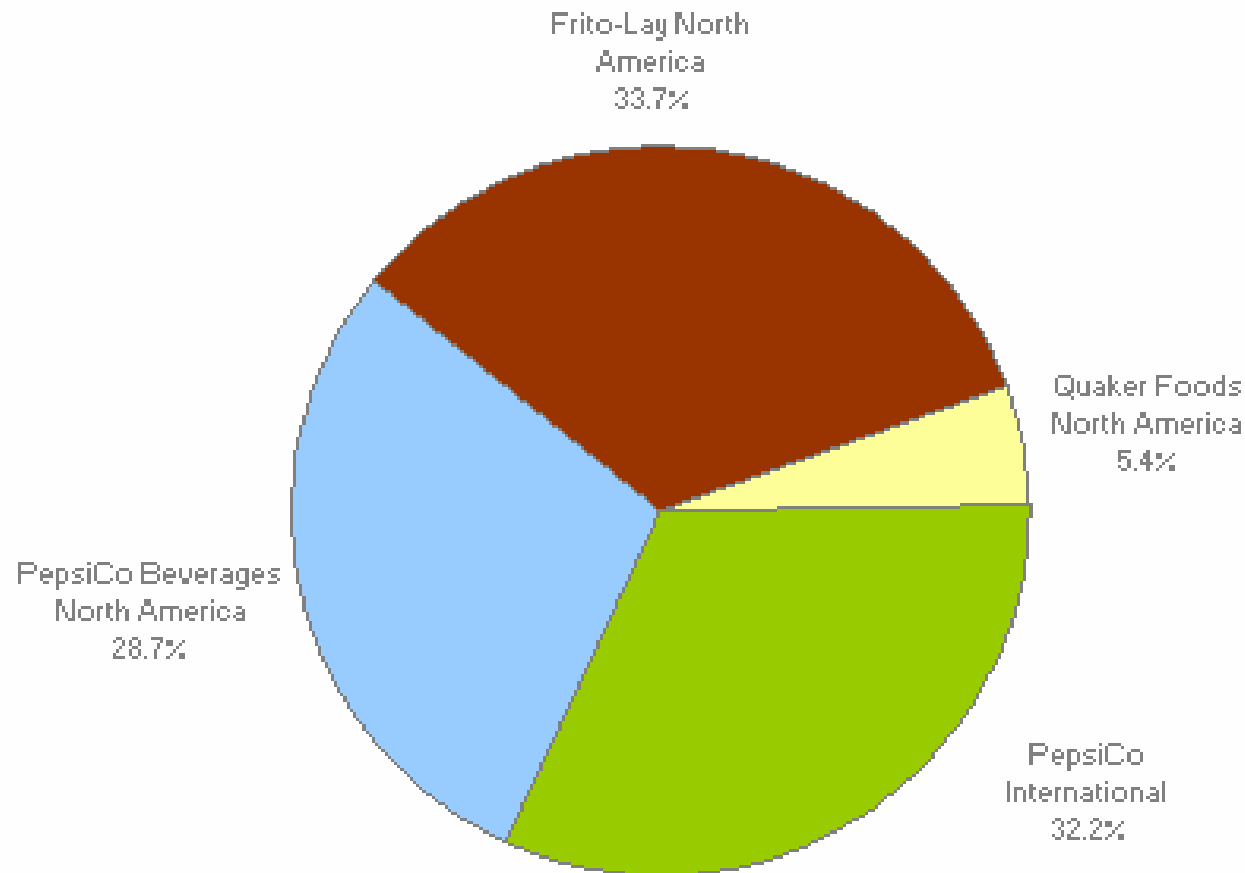
<u>Region</u>	<u>04 Sales</u>	<u>04 Unit Growth</u>
North America	30%	-1%
Latin America	10%	3%
Europe, Eurasia, & Middle East	33%	0%
Africa	5%	29%
Asia	21%	5%

# Pepsi Organization Structure

- Reorganization in 2003 from 6 to 4 departments
  - Frito-Lay North America (FLNA)
  - PepsiCo Beverages North America (PBNA)
  - PepsiCo International (PI)
  - Quaker Foods North America (QFNA).

# Pepsi Organization Structure

Chart 1 PepsiCo Inc: % Sales by Division 2004



Source: *Euromonitor International from company reports*  
Note: *Year end December*

# Organizational Structure

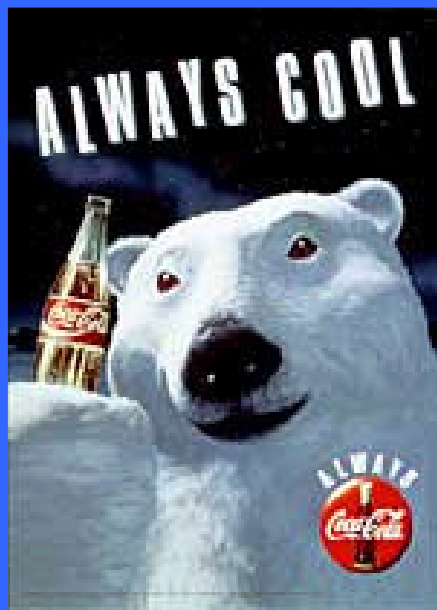
- What is more effective: Coke's Geographic Focused Structure or Pepsi's Product Focus Structure?
- Should Pepsi Have Spun Off Their Restaurant Business?

# Marketing & Advertising



What's the Difference?

# Coke Marketing & Advertising



# Coke Marketing & Advertising

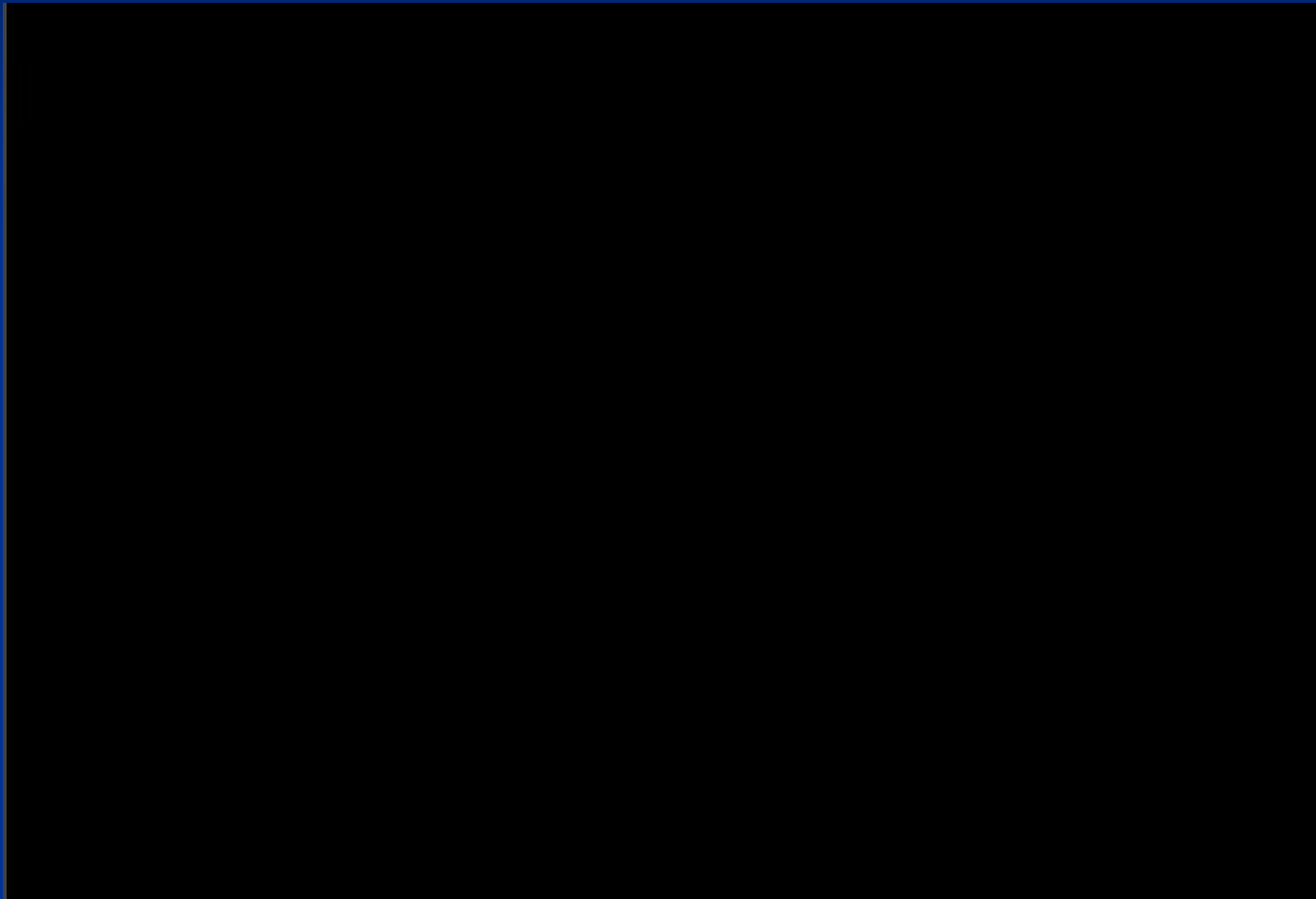


# Coke Marketing & Advertising

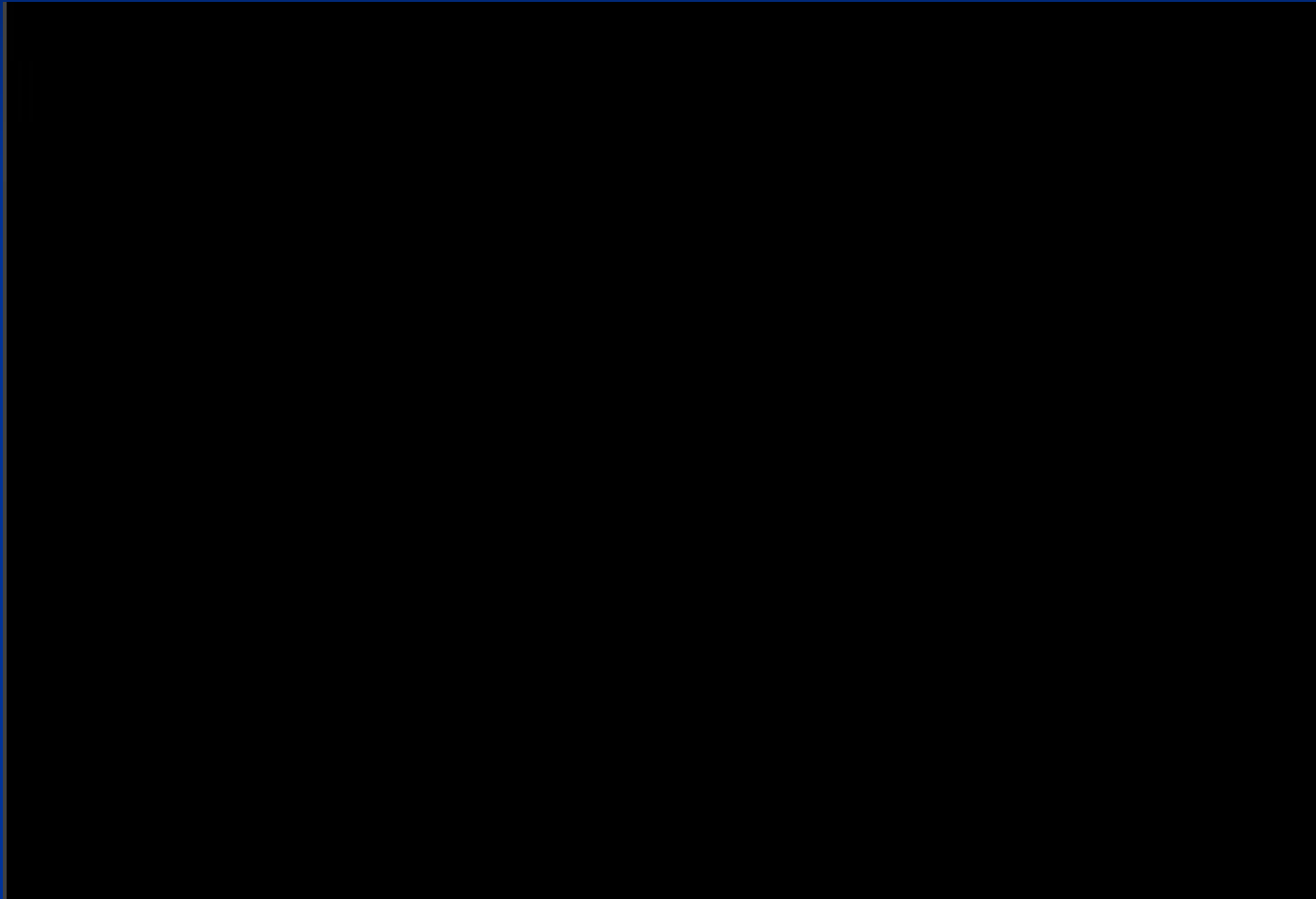
- Coca Cola - Redefining Itself
- Rejuvenation
- Refreshment
- Health & Nutrition
- Replenishment



# Coke Marketing & Advertising



# Coke Marketing & Advertising



# Pepsi Marketing & Advertising

## ■ Famous Coke Drinker

- Fatty Arbuckle
- Mean Joe Green
- William G Bonin
- Jimmy Carter
- Santa Claus
- Bill Clinton
- Eisenhower
- John F. Kennedy
- George Michael
- Bill Cosby
- Kate Beckinsale
- Adrien Brody



## ■ Famous Pepsi Drinkers

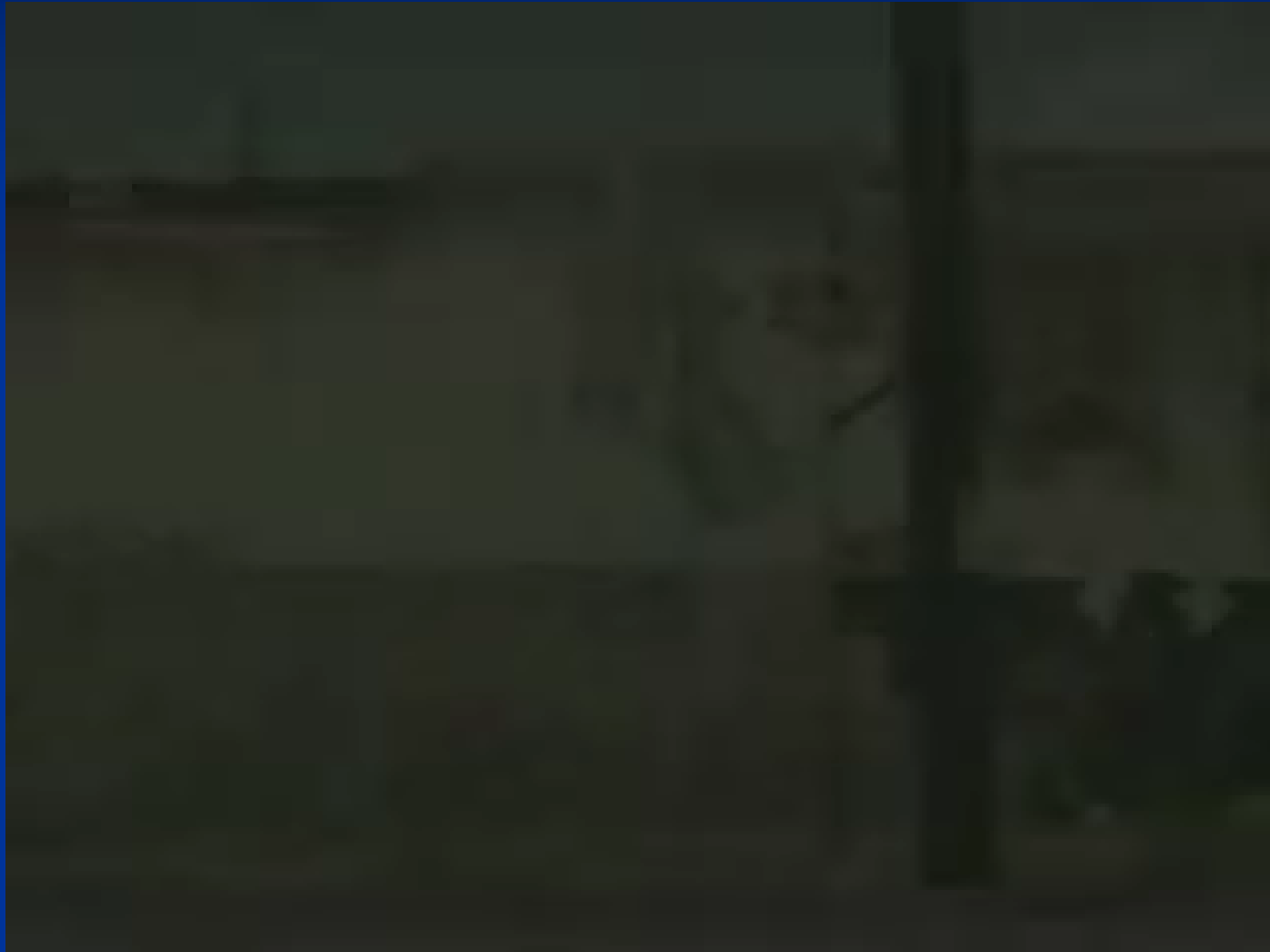
- Marilyn Chambers
- Joan Crawford
- Bob Dole
- Robert Alton Harris
- Michael Jackson
- Ludacris
- Madonna
- Joseph McCarthy
- Richard M. Nixon
- Paula Poundstone
- Elvis Presley
- Spice Girls
- Mike Tyson
- Britney Spears
- Ray Charles (Diet)
- Beyoncé Knowles (Diet)



# Pepsi Marketing & Advertising

- Advertising Focuses On :
  - Slandering Coke
  - Youth
  - Market Segment

# Pepsi Marketing & Advertising



# Pepsi Marketing & Advertising



# Pepsi's Distribution

- Exclusive Contracts with Franchise Bottlers and Independent Distributors and Retailers
  - Wal-Mart
- Agreements with competitors
  - Unilever with Lipton
  - Starbucks (Frappuccino, DoubleShot).

# Coke Distribution

- Independent Bottlers with Exclusive Contracts
- Coca-Cola Enterprises
- Wal-Mart & Powerade



# Commercial Break



# Global Cola War

TABLE 3.2 Coke and Pepsi Shares of Total Soft-Drink Sales, Top Ten Markets, 1996

Markets	Market Shares	
	Coke	Pepsi
United States	42%	31%
Mexico	61	21
Japan	34	5
Brazil	51	10
East-Central Europe	40	21
Germany	56	5
Canada	37	34
Middle East	23	38
China	20	10
Britain	32	12

*Source:* Company annual reports, and Patricia Sellers, "How Coke Is Kicking Pepsi's Can," *Fortune*, 28 October 1996, p. 82.

*Commentary:* These market share comparisons show the extent of Pepsi's ineptitude in its international markets. In only one of these top 10 overseas markets is it ahead of Coke, and in some, such as Japan, Germany, and Brazil, it is practically a nonplayer.

# Global Cola War

**Table 18**      **Global Company Shares of Soft Drinks by Volume 2000-2004**

% off-trade volume	2000	2001	2002	2003	2004
Coca-Cola Co, The	24.9	24.5	24.3	23.6	23.3
PepsiCo Inc	12.5	13.2	13.1	12.8	12.7

# Globalization

- How Can Coke or Pepsi Win The Global Cola War?

# Art of War & 36 stratagems

1. 瞞天過海 Crossing the sea under camouflage
2. 圍魏救趙 Relieve the State of Zhao by besieging the state of Wei
3. 借刀殺人 Kill somebody by using another person's knife
4. 以逸待勞 Wait at one's ease for the fatigued enemy
5. 趁火打劫 Plunder a house when it is on fire
6. 聲東擊西 Make faint to the east but attack in the west
7. 無中生有 Produce something out of nothing
8. 暗渡陳倉 Secretly crossing over to Chencang
9. 隔岸觀火 Watch the fire from the other side of the river
10. 笑裡藏刀 Conceal a knife in your smile
11. 李代桃僵 The plum dies for the apricot
12. 順手牽羊 Make off with a sheep in passing by
13. 打草驚蛇 Beaten the grass and frighten away the snake
14. 借屍還魂 Resurrect in a new guise
15. 調虎離山 Lure the tiger out of the mountain
16. 欲擒故縱 Let the enemy leave in order to catch him
17. 拋磚引玉 Throw a brick to allure a gem
18. 擒賊先擒王 Catch the ringleader first in order to capture all his bandit followers
19. 釜底抽薪 Take away the firewood under the cauldron
20. 潭水摸魚 Fish in troubled water
21. 金蟬脫殼 Cast off the molted skin (escape unnoticed)
22. 關門捉賊 Close the gate to catch the thieves
23. 遠交近攻 Befriend distant countries while attacking those nearby
24. 假途伐虢 Conquer Hao after obtaining permittance to cross another country (forge neutral alliances)
25. 偷樑換柱 Steal the beams and pillars and replace them with rotten timbers
26. 指桑罵槐 Revile the locust tree while pointing at the mulberry (scold one person through another)
27. 假癡不癩 Pretend madness without loosing the balance
28. 上屋抽梯 Take away the ladder when the enemy is in the second floor
29. 樹上開花 False flowers on a tree (use decoys)
30. 反客為主 Make the guest to the host ("cuckoo's egg strategy")
31. 美人計 The stratagem of (making use of) a beautiful woman (as decoy)
32. 空城計 The stratagem of (open gates and) an emptied city (with soldiers waiting in ambush)
33. 反間計 The stratagem of sowing the seeds of discord (among the enemies)
34. 苦肉計 The stratagem of self-mutilation (in order to lure out the enemy)
35. 連環計 The stratagem of combining rings (of various stratagems)
36. 走為上計 The best stratagem is to run away

# Cola War in Latin America

- Cola War in Latin America 1994-2000 bottlers
  - Argentina
    - Charles Beach vs. Goizueta
  - Venezuela
    - Oswaldo Cisneros
  - Brazil, Chile, Uruguay



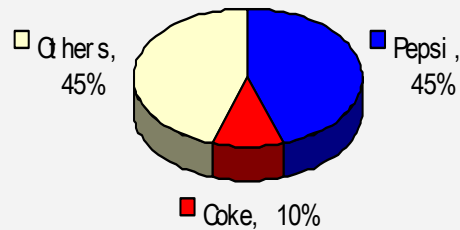
# 36 Stratagems Applications

## 33.反間計

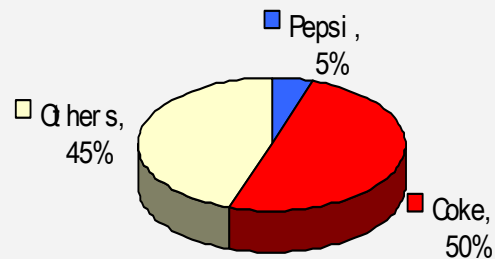
### Sowing the Seeds of Discord

- Good Counter-Move Example by Coke
- Venezuela Oswaldo Cisneros
- Coca-Cola tricked Oswaldo
- “That showed I wasn’t an important player in their future.”

Before



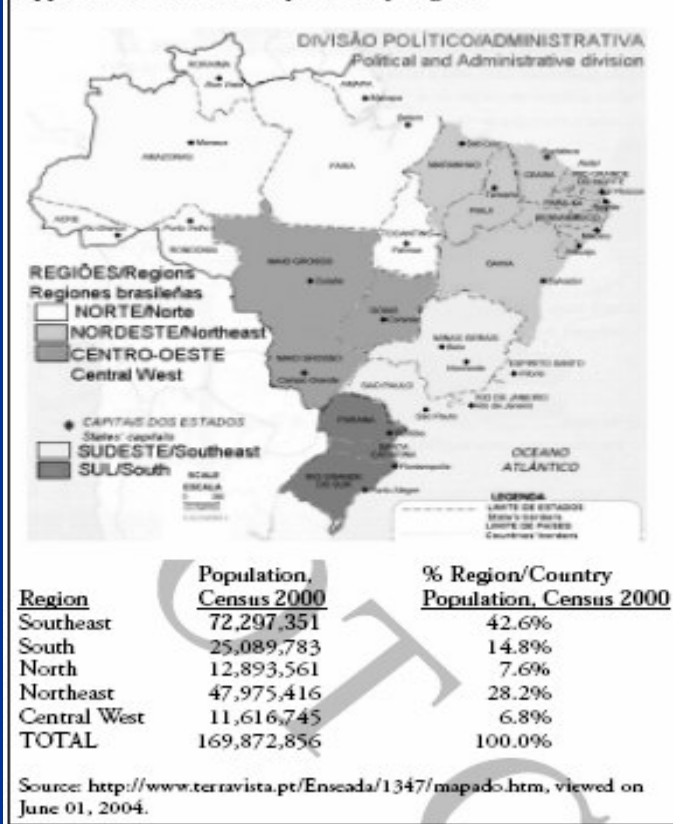
After



# First Mover's Advantages

## ■ Cola War in Brazil

Appendix 10 Brazilian Population by Region



Appendix 5 Sales of Non-Alcoholic Beverages\* in Brazil 1986–2003

Year	Volume (1000 Liters)	Growth %
1986	4,895,835	
1987	5,305,593	8.37
1988	5,095,788	-3.95
1989	5,800,108	13.82
1990	5,769,264	-0.53
1991	5,978,175	3.62
1992	5,147,758	-13.89
1993	5,615,803	9.09
1994	6,440,397	14.68
1995	9,146,041	42.01
1996	9,861,493	7.82
1997	10,574,528	7.23
1998	11,029,351	4.30
1999	11,052,303	0.21
2000	11,516,598	4.20
2001	11,585,868	0.60
2002	11,968,630	3.30
2003	11,571,945	-3.31

\*Bottled water, juices, juice-flavored drinks, sports drinks, teas, and soft drinks.

Source: ABIR—Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não Alcoólicas (Brazilian Association of Soft Drink and Non-Alcoholic Beverages Manufacturers), [http://www.abir.org.br/article.php?id\\_article=118](http://www.abir.org.br/article.php?id_article=118), viewed on April 11, 2004.

# 36 Stratagems Applications

## 36. 走為上計

### If All Else Fails Retreat

- In 1994 Pepsi reentered Brazil
- Coca-Cola fight against Pepsi at Brazil
- Pepsi retreated again at right time



# Cola War in Europe

- Contamination Scares 1999
  - Belgium & France
  - Coca-cola lost \$3.4M per day

TABLE 3.3 Coca-Cola's Market Share of Soft-Drink Market in Selected European Countries, 1998

France	59%
Spain	58
Germany	55
Central Europe	47
Italy	45
Nordic and Northern Eurasia	41
Great Britain	35

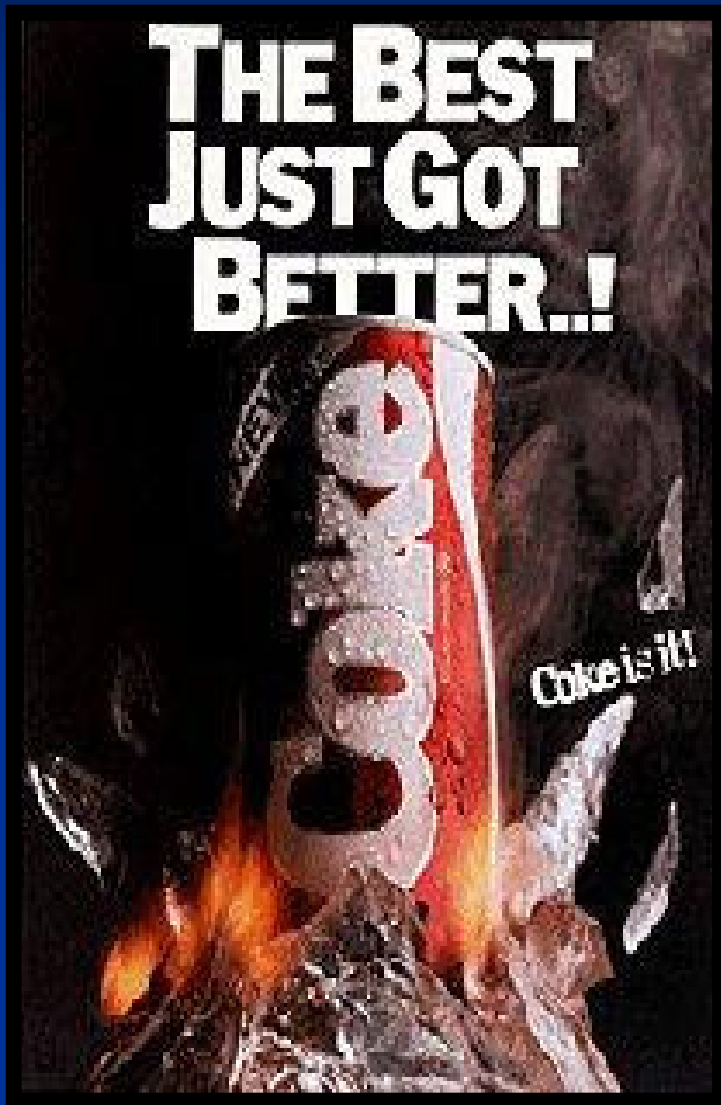
*Source:* Company published reports.

*Commentary:* The dominance of Coke in almost all countries of Europe, not surprisingly, makes it vulnerable to antitrust scrutiny.

# *36 Stratagems Applications*

## 15. 調虎離山

### Lure the Tiger Out of the Mountain



- Good Move Example by Pepsi
- Coca-Cola is the tiger
- Pepsi's Taste Tests Angered Coca-Cola
- Coca-Cola Classic Was Removed
- 5,000 Complained

# SWOT : Strengths

## Coke

- Coke Brands Enjoy a High-Profile Global Presence
- Four of the top five leading brands
- Broad-based bottling strategy
- 47% of global volume sales in carbonates

## Pepsi

- PepsiCo Brands Enjoy a High-Profile Global Presence
- Pepsi Owns the World's 2nd Best-Selling Soft Drinks Brand
- Constant Product Innovation
- Aggressive Marketing Strategies Using Famous Celebrities
- A Broad Portfolio of Products

# SWOT : Weaknesses

## Coke

- Carbonates Market is in Decline
- Over-complexity of relationship with bottlers in North America
- The existing distribution system is not so efficient for non-carbonates

## Pepsi

- Carbonates Market is in Decline
- Pepsi is Strongest in North America
- They Only Target Young People

# SWOT : Opportunities

## Coke

- Soft drinks volumes in the Asia-Pacific region forecast to increase by over 45%
- Brands like Minute Maid Light and Minute Maid Premium Heart Wise are positioned well with the “Health-concerned” market
- Use distribution strengths in Eastern Europe and Latin America

## Pepsi

- Increased Consumer Concerns with Regard to Drinking Water
- Growth in Healthier Beverages
- Growth in RTD Tea and Asian Beverages
- Growth in the Functional Drinks Industry

# SWOT : Threats

## Coke

- Growing "health-conscience" society
- PepsiCo's Gatorade, Tropicana and Aquafina are stronger brands
- Boycott in the Middle East
- Protest against Coke in India
- Negative publicity in Western Europe

## Pepsi

- Obesity and Health Concerns
- Coca-Cola Increases Marketing and Innovation Spending to \$400M Globally
- Relying on North America only is Bad

# What To Do Next ?

- What Strategies Should Pepsi and Coke Pursue For Success in The Future?