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Business Strategies
Cola Wars Case Study
23 September 2022

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Throughout the past 120 years the creation, rise, and decline, of the carbonated soft drink industry has unfolded. A fierce and intense duopoly that has shaped American culture and the way we view soft drinks today.

Coke and Pepsi are companies belonging to the CSD or “carbonated soft drink” industry. Although this industry is technically an oligoploy with 12 competitors, the two biggest competitors, Coke and Pepsi, are almost considered a duopoly due to their intense rivalry and market domination. Other competitors of Coke and Pepsi include Red Bull, Dr. Pepper Snapple, Sprite, and Fanta. It is important to remember these brands are competitors within the CSD industry, however some are owned by Coca-Cola or Pepsi. Coke and Pepsi have numerous other big competitors in other industries they are involved in. These ten other small companies must immerse themselves in the mind of their future consumer in order to stay competitive with Coca-Cola and PepsiCo. Market segmentation and product differentiation are two ways these companies attempt to gain a larger unique value proposition. For example, Red Bull brands themselves as an energy drink unlike Coke and Pepsi. They challenge Coke and Pepsi in price, product differentiation, and distribution strategy in order to stay competitive and fuel innovation.

Porter Analysis

Threats of Entry

Porter’s anaylsis consists of evaluating five different forces in order to determine an industry’s level of competitiveness. When thinking about the first force, threats to entry, the difficulty level to enter the CSD industry is relatively low. There are three main factors that influence one’s ability to enter an industry. These factors consist of start-up costs, competitor quantity, and a clear exit strategy. Funding plays a crucial role in determining the difficulty to enter an industry. If start-up costs are exponentially high, this makes entering that industry more difficult compared

to less daunting financial requirements of other industries. Regarding the CSD industry, startup costs are relatively low as compared to industries such as airlines, real estate, etc. The CSD product itself is packaged and sold at an extremely affordable price, thus lowering start-up costs and soothing the process to enter the market.

Within the CSD industry, there is a relatively high low amount of competitors compared to other markets. Ultimately, if an industry has a small amount of competitors, this increases the difficulty to enter as it market control is spread over less suppliers. Thus, when another competitor tries to enter, the existing companies can collectively advance to push them our of the industry, making the CSDindustry more difficult to enter. However, although there are 12 competitors total, Coca-Cola and Pepsi control almost 75% of the industry worldwide. This extreme industry domination creates a level of power and control for Coca-Cola and Pepsi, which increases the difficulty to enter as well.

This factor also affects one's exit strategy in the CSD industry. With dominant and experienced organizations such as Coke and Pepsi, the probability of selling one's CSD business to one of these large organizations is relatively high, suggesting a secure exit strategy. Overall, with low start up costs, ogligopilptic competition, and a secure exit strategy, the threats to entering the CSD industry are at a medium extent.

When first entering the market, Coke and Pepsi quickly had to understand the supply chain of the industry. Both companies were able to easily enter the market and start selling their products, however they were able to achieve such a high level of success due to the adaptation of their distribution channels to be cost effective and efficient.

Bargaining Power of Buyers

The second force in the Porter analysis the bargaining power of buyers (bottlers, manufacturers, retail stores etc). The level of bargaining power of buyers is determined through two important factors: product differentiation and quantity of buyers.The more differentiated a product is, the more a supplier can charge for that product. Thus, industries with a high level of product differentiation will decrease the power of buyers. In terms of the CSD industry, there is a minimal level of product differentiation. Although people fixate and crave specific flavour profiles from Coke or Pepsi, the level of differentiation between actual CSD products is very minimal and the product benefits are almost identical. Thus, the level of product differentiation

between Coke and Pepsi is very low, increasing bargaining power for the buyers. In terms of demand, the quantity of buyers of CSD products is high. Ranging from manufacturers and bottlers, to convenience stores, and found machines, the distribution of CSD products is intense and in high demand.The price of CSD products are not just affordable for most buyers but also accessible. This high number of buyers influences whether buyers have power within the market depending on the industry's price elasticity. Regarding the CSD industry, the price elasticity for CSD products is high, meaning that customers of CSD products are very price sensitive. As this industry competes with a plethora of substitutes priced equally, the substitute effect makes CSD products price elastic. Thus, even though there an extreme demand for CSD products worldwide, the price elasticity of the products limits how much profit suppliers can make, ultimately giving more power to buyers than to suppliers in this aspect.

Bargaining Power of Suppliers

The third force regarding the bargaining power of suppliers is influenced by the same two factors as the second force of the analysis. When thinking about product differentiation through the perspective of supplier bargaining power, since CSD suppliers do not have much differentiation in terms of quality, price, and accessibility, this aspect gives more power to buyers than to suppliers. As explained above, the quantity of buyers works against the supplier's favor as they are constricted by the substitute effect of their product. Overall, buyers have more bargaining power than suppliers do within the CSD industry.

A third factor that has not been fully developed yet for this industry is government regulation. Currently, there is a moderate amount of regulation strictly revolving around the nutrition of the CSD products. However if regulation expands to demand transparency and ethical practices as well, this could have a strong influence on bargaining power in the future.

Coke responded the bargainning power of buyers by continuously meeting the evolving demands of its customers before Pepsi did. Coke was the first to introduce Diet Coke, Coke Zero, and numerous other product lines that Pepsi eventually followed suit. Coke also aimed to directly compare the two companies, generating ad campaigns that specifically use wording to reassure their CSD product is the best. Pepsi responded to the bargaining power of the buyers by almost mimicking the strategy of Coke in order to stay competitive. With every move Coke made in terms of product creation, distribution, and marketing of the Cola Wars, Pepsi sought to do the

same. For example, Pepsi created its own fountain machine after Coke did and competed with many fast food chains to win shelf space. Pepsi also started a campaign in Dallas of a blind taste test to directly show how people prefer Pepsi. With every move Coke made to sway their target audience, Pepsi countered quickly and effectively to stay competitive.

Threat of Substitutes

The fourth force of the Porter analysis is the threat of substitues. Expanding on the idea above, this aspect of the industry is crucial to the CSD industry's level of competitiveness. There are three important factors when thinking about the threat of substitutes. These factors consist of the price performance ratio and red vs blue ocean markets. The price performance ratio essentially boils down the concept of opportunity cost through mainly a monetary perspective. If using a substitute in exchange for the monetary benefit makes sense, the price performance ratio is high and thus the threat of substitues is high.

Within the CSD industry, the price performance ratio when comparing substitutes is extremely low. Substitutes for CSD products are priced almost identically, with a few dollars of leeway. Thus, the benefit of using a substitute comes down to personal preference, reducing the signficance of the price performance ratio, and maintaining high levels of customer loyalty.

If substitutes are strictly competing on price, this industry is called a red ocean. Red oceans have little room for product differentiation and skyrocket industry competitiveness. A blue ocean is an idyllic market with little to no market saturation. The CSD industry maintained enough product differentiation to stay out of a red ocean for most of the 20th century.

Both Coke and Pepsi saw strong numbers of customer loyalty throughout the entirety of their business up until the early 21st century. The nutrition of both of these products is what ultimately increased the need for substitutes as updated health codes began slandering the Coke and Pepsi formulas. Coke responded to this obstacle by changing their formula to no longer use high fructose corn syrup but instead stevia. Pepsi of course, followed suit. Coke also began laucnhing product lines such as Coke Zero and Diet Coke that focused on healthier alternatives and increasing their product depth. Pepsi of course, followed suit but did not nearly have the same success Coke did. Although Coke and Pepsi are still standard bevarages around the world, their popularity significantly declined as the health trends increased. This issue is still prevalent to

both companies and is identified as the number one risk factor for Coke. Although both companies have already addressed this issue in the past, the future is rapidly demanding for more.

Extent of Rivalry Between Competitors

Finally the last force of the Porter analysis is the extent of rivalry between competitors. Within the CSD industry, this force has an immense impact on the competitiveness of the industry. The rivalry between Coca-Cola and Pepsi is one of the most notorious scenarios of competitor rivalry. Rivalry between competitors in the CSD industry is influenced by three main factors: product differentiation, price, and the quantity of competitors. Product differentiation is to a minimal extent between Coca-Cola and Pepsi, as it really comes down to taste when deciding between the two products. Pepsi and Coke's product mixes were almost a mirror reflection of one another throughout the 20th and 21st century. This lack of product differentiation fueled the rivalry and the public to participate in opinionating who had the better CSD formula, thus increasing the rivalry between competitors.

The price factor is similar to the lack of product differentiation. The price difference of these products today is insignificant when determining which product to purchase. However, in the 20th century, cutting their prices in half led Pepsi to rapidly gain market share from Coke. As long as these two products are priced evenly, this will increase the rivalry between Coke and Pepsi to a signficant extent. If one of these companies were to change their price significantly there is a possibility of a decrease in rivalry as one product will be noticeabley more affordable than the other. Finally the last factor is the quantity of competitors. As there are only two main competitors in the CSD industry, this skyrockets the rivalry between competitors.

Having only two companies draws a direct comparison of the two products from not just a business perspective but from the public as well. As we saw in the 20th century, CSD products have been saturated into American culture. The amount of pressure and desire to compete to be the best beverage of American culture between the two companies clearly indicated how significant the exent of the rivalry is between competitors in the CSD industry.

Coke and Pepsi responded aggressively to the Cola Wars, always seeking to one up the other. However, as the two companies evolved, their strategies did hold some key differences that have largely led to success of both companies. These differences are seen in their company purpose,

and distribution channels. The main difference in their business strategy was that Pepsi is a universal snack and beverage company, while Coke focusses its efforts more specifically on CSDs and other drinks. Although both companies have an intensive distribution strategy, Coke purused this more than Pepsi did with goal to make Coke accesssible ubiquitously. While both companies first competed domestically and eventually expanded internationally, it was Coke that sought to dominate international markets while Pepsi took control domestically. Today, Coke has refocused some of its efforts in the United States, however this still highlights the differences in strategy. This differentiation allowed them to develop their own company brand and identity while achieving greate succes with such similar products and strategies.

Overall, although there are low threats of entry and threat of substitues is relatively insignficant, the bargaining power of buyers and the extreme rivalry between Coke and Pepsi make the CSD indsutry a highly competitive industry.

Future Considerations

Transparency and Ethicality

Something to consider in the most modern time is the ethicality of each supplier. As a deep need for product transparency and ethical practices continues to grow, an environmental component could have a substantial impact of a supplier's control as this would increase their differentiation. The malnutrition of CSD has always been prevalent, however was irrelevant until society's morals changed. Similar to the health concerns, product ethicality and transparency are assimilating into our cultures around the world, thus Coke and Pepsi must adapt to these social changes in order to stay competitive. From an ethical standpoint, any ethicalities in question for both businesses should be terminated and not accepted.

Environmentalism and Nutrition

Another issue is the environment. "ESG" or Environmental Social Governance, is rapidly rising throughout all business practices and sweeping across communities. Coke and Pepsi's contribution to climate chang rearding all aspects of their businesses will socially need to be acceptable in order to keep consumers happy. As most large corporations are involved in the

transaction of carbon credits, this is an example of a malpractice that could no longer be socially accepted. Coke and Pepsi should prepare for a shift in environmentalism and ethicality by aligning their company and brand with the same morals of society.
Eliminating all unethical practices, and participating active communication about the sourcing of all of ther products should commence in the future for both companies. Coke and Pepsi should also consider more nutrious alternatives such as organic product lines. There could be potential for a generic vegan drink, kombucha, or immunity shot that could be assimilated into the market in the future as well.

Overall, Coke and Pepsi must expand into other market segments to continue to align with morals of society and meet the demands of their customers.