V-Cola: Confidential Instructions for Price Down
TheCaseSolutions.com
Chester Group
V.R.I.O
P.E.S.T.E.L
Introduction & Back Ground
Pre-Cola Wars
TheCaseSolutions.com
The Soda Revolution
Cola Wars and Beyond
S.W.O.T
TheCaseSolutions.com
The Five Forces That Shape Industry Competition
TheCaseSolutions.com
QUESTIONS?????
TheCaseSolutions.com
Pepsi Competitive Advantage
During Cola-Wars
PEPSICO
TheCaseSolutions.com
Health Trend and Obesity Scare
Corporate/Business Strategy
Organizational Design Vertical Integration
Discussion
ADAM LEVERONE/THE STREET

V-Cola: Confidential Instructions for Price Down
TheCaseSolutions.com
Chester Group
Introduction & Back Ground
Pre-Cola Wars
TheCaseSolutions.com
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
c 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
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
BRAD'S DRINK
V.R.I.O
Nutrition Facts
TheCaseSolutions.com
P.E.S.T.E.L
PESTEL
TheCaseSolutions.com
S.W.O.T
SWOT ANALYSIS
TheCaseSolutions.com
pepsi
The Five Forces That Shape Industry Competition
Threat of New Entrants
Bargaining Power of Suppliers
Rivalry Among Existing Competitors
Bargaining Power of Buyers
Threat of Substitute Products
TheCaseSolutions.com
Sustaining Competitive Advantage
"Without Coke, Pepsi would have a tough time being original and lively competitor... If Coke didn't exist, we'd pray for somebody to invent them." -Roger Enrico (Pepsi former CEO)
QUESTIONS?????
The Soda Revolution
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
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
COLA War Years 1974-1999
2000-2010
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
Supplies all Taco Bell, KFCs and most Pizza Huts
Snack food lines very profitable
TheCaseSolutions.com
Pepsi Competitive Advantage
During Cola-Wars
PEPSICO
TheCaseSolutions.com
Health Trend and Obesity Scare
Corporate Governance
Diversification of products (Strategic leadership)
pepsi
Corporate/Business Strategy
Organizational Design Vertical Integration
PBG
PEPSICO
Discussion
Problem's facing Coke and Pepsi in the CSD industry:
Whether the WAR is still about "Cola"
Do they have new products in the market to sustain the new health trend?
Would new popular beverages provide them with new & profitable revenue streams?
Can they boost their weakening domestic CSD sales?

Introduction & Back Ground

Pre-Cola Wars

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
- c 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

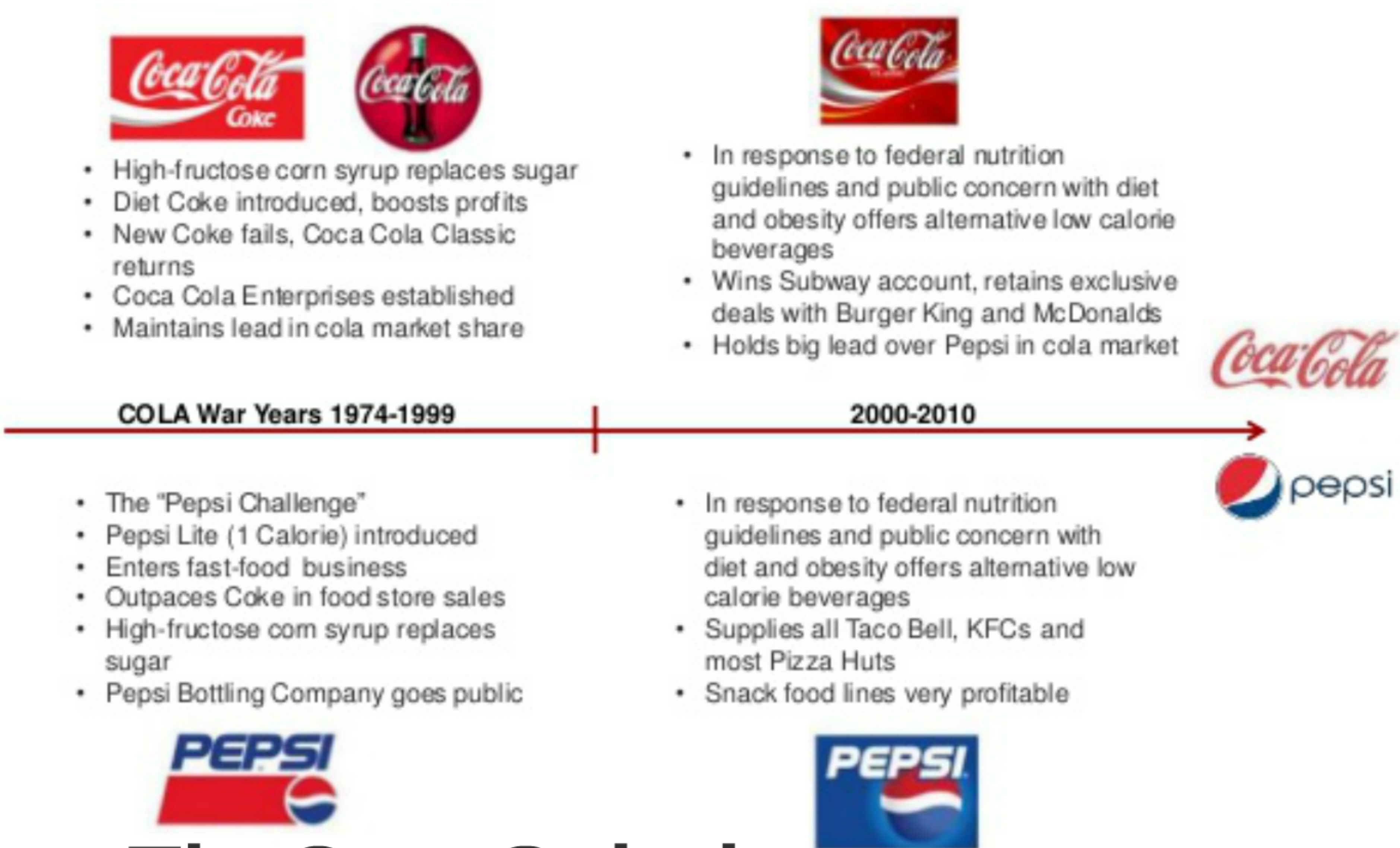
BRAD'S DRINK

- 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

Cola Wars and Beyond



P.E.S.T.E.L

Economic: At the beginning of the Cola wars, both Coke and Pepsi experienced annual growth of 10% in the CSD industry. However, in the late 1990's growth rate decline to less than 1% as Coke and Pepsi encountered new challenges. According to Fortune, Coca Cola commands about 42.3% of the market, while Pepsi now has 27.5%.During 2000-2004 Coke laid off 7,000 employees, decreasing their employment by 20%. Coca-Cola also plans to lay off about 1,600 to 1,800 employees globally in the next few months" in 2006 to cut $3 billion of labor costs.

Political Factors

In 2005 Federal Nutrition Guidelines identified carbonated soft drinks as the largest source of obesity causing sugars in the American diet (pg. 357). The gov't implicated the soft drink industry for the health implications is a major political obstacle the industry faces. International politics also has effects on Coke and Pepsi entering and surviving in foreign markets (a 2003 bombing in Columbia killed a Coke executive, Columbian union activists accused Coke of supporting right wing death squads.

Sociocultural Factors

United States consumers demand healthier lifestyle products over traditional carbonated soft drinks. This have caused growth rate decline to less than 1%. International consumers have cultural differences and have different expectations for desired products than the American consumer, this require Coke and Pepsi totheir product and appeal to different cultures.

Technological Factors

Non-carbonated soft drink beverages like Lipton tea and Gatorade require costly new equipment and major process changes to be bottled. Coke and Pepsi invested heavily towards building plants for the processes required to bottle these new drinks.The use of aluminum cans for packaging meant bottling plants were the metal can industry's largest customer, but the development of plastic bottles has gained increased use and popularity. Cooling units placed at nearly every checkout lane in supermarkets is technology innovation used to drive impulse purchasing.

Legal Factors

International markets involve obstacles such as antitrust regulations, advertising restrictions, and foreign exchange controls in 1938 Coke filed suit against Pepsi for brand infringement and lost. During Cola Wars, Coke lost a publicize race discrimination suit and Burger King lawsuit, resulting in a $21-million-dollar settlement because of a "rigged marketing test". Also, in 2005 settled with the SEC on charges involving a Japanese market. Consequently, Coke being the CSD market leader has caused them to have the most legal trouble than any other competition.

Ecological Factors: In 1980 Coke and Pepsi switched from using sugar to high fructose corn syrup to achieve a sustainable lower priced alternative in the concentrate formula. In 2003 Germany's bottle return law which enforces recycling procedures caused many retail chains to stop carrying Coke and Pepsi products. Both companies are promoting "Go Green" by printing the recycling symbols on their products.

The Five Forces That Shape Industry Competition

Power of suppliers-weak

Threat of Entry: Weak

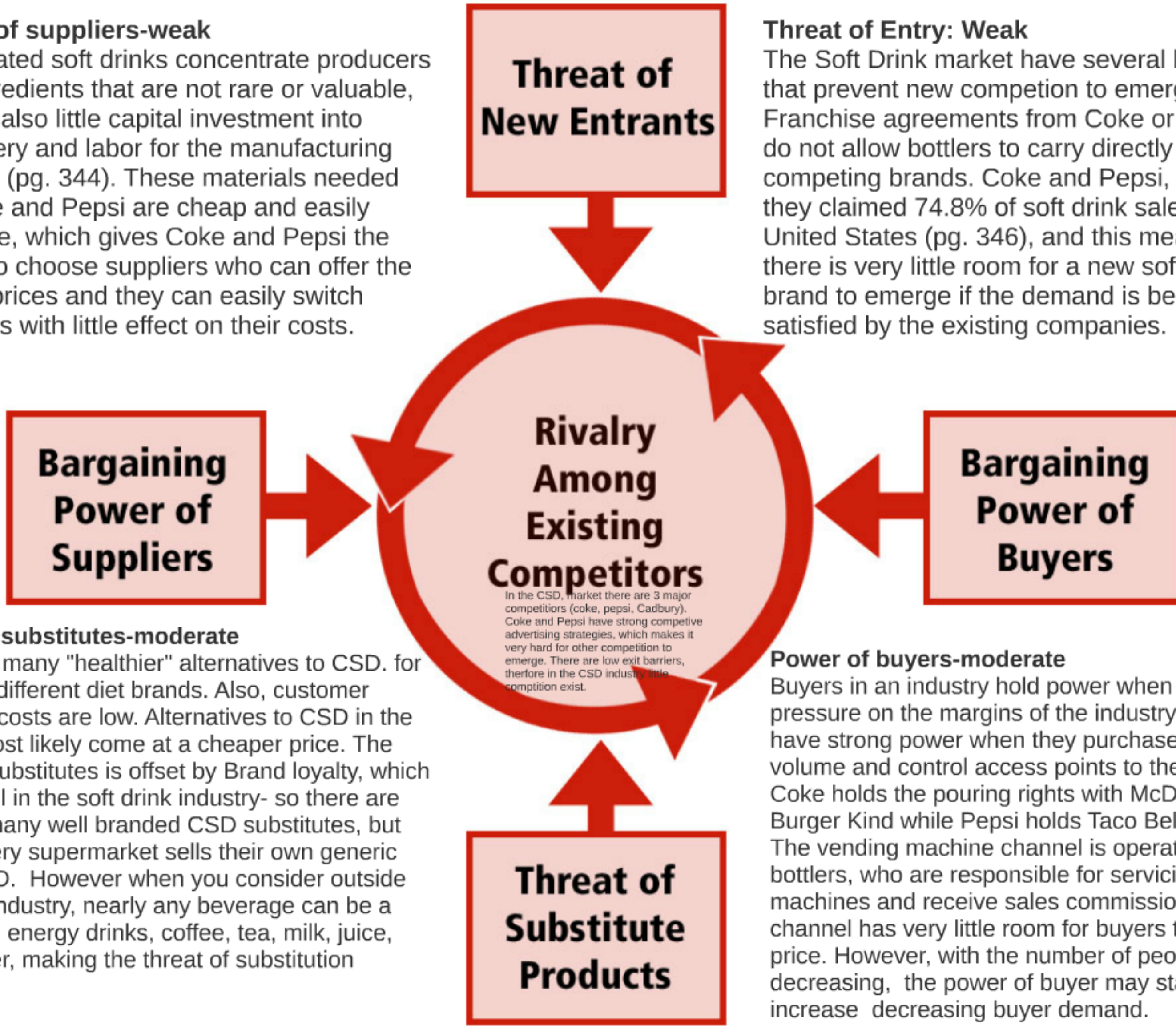
retail chains to stop carrying Coke and Pepsi products. Both companies are promoting "Go Green" by printing the recycling symbols on their products.

competition...

The Five Forces That Shape Industry Competition

Power of suppliers-weak
Carbonated soft drinks concentrate producers use ingredients that are not rare or valuable, there is also little capital investment into machinery and labor for the manufacturing process (pg. 344). These materials needed by Coke and Pepsi are cheap and easily available, which gives Coke and Pepsi the power to choose suppliers who can offer the lowest prices and they can easily switch suppliers with little effect on their costs.

Threat of Entry: Weak
The Soft Drink market have several barriers that prevent new competion to emerge. Franchise agreements from Coke or Pepsi do not allow bottlers to carry directly competing brands. Coke and Pepsi, in 2004 they claimed 74.8% of soft drink sales in the United States (pg. 346), and this means there is very little room for a new soft drink brand to emerge if the demand is being satisfied by the existing companies.



Threat of substitutes-moderate
There are many "healthier" alternatives to CSD. for example, different diet brands. Also, customer switching costs are low. Alternatives to CSD in the market most likely come at a cheaper price. The threat of substitutes is offset by Brand loyalty, which is powerful in the soft drink industry- so there are not very many well branded CSD substitutes, but nearly every supermarket sells their own generic brand CSD. However when you consider outside the CSD industry, nearly any beverage can be a substitute: energy drinks, coffee, tea, milk, juice, water, beer, making the threat of substitution stronger.

Power of buyers-moderate
Buyers in an industry hold power when they can put pressure on the margins of the industry.Buyers have strong power when they purchase high volume and control access points to the customer. Coke holds the pouring rights with McDonalds and Burger Kind while Pepsi holds Taco Bell and KFC. The vending machine channel is operated by bottlers, who are responsible for servicing the machines and receive sales commissions. This channel has very little room for buyers to influence price. However, with the number of people drinking decreasing, the power of buyer may start to increase decreasing buyer demand.

V.R.I.O

Nutrition Facts

Serving Size 1 oz. (28g)
Servings Per Container 6

Amount Per Serving

Calories 80	Calories from Fat 15
	% Daily Value*
Total Fat 1.5g	2%
Saturated Fat 0.5g	3%
Trans Fat 0g	
Cholesterol 5mg	2%
Sodium 180mg	8%
Total Carbohydrate 15g	5%
Dietary Fiber 1g	4%
Sugars 1g	
Protein 2g	

Vitamin A 0%	• Vitamin C 0%
Calcium 2%	• Iron 6%

*Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:

		2,000	2,500
	Calories:	2,000	2,500
Total Fat	Less than	65g	80g
Saturated Fat	Less than	20g	25g
Cholesterol	Less than	300mg	300mg
Sodium	Less than	2,400mg	2,400mg
Total Carbohydrate		300g	375g
Dietary Fiber		25g	30g

Calories per gram:
Fat 9 • Carbohydrate 4 • Protein 4

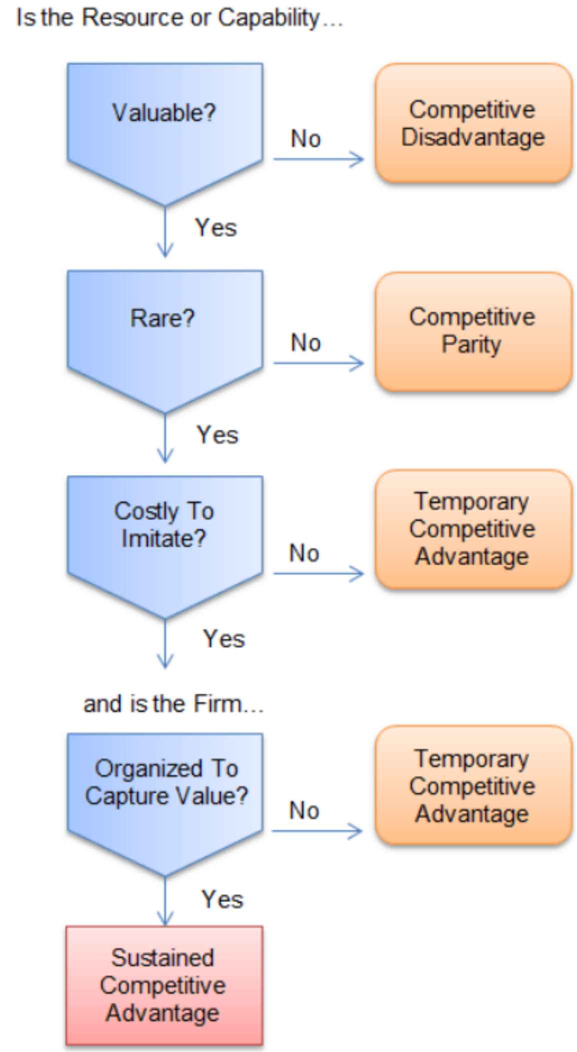
INGREDIENTS: ENRICHED FLOUR (WHEAT FLOUR, NIACIN, REDUCED IRON, THIAMIN MONONITRATE [VITAMIN B_1], RIBOFLAVIN [VITAMIN B_2], FOLIC ACID), **CORN SYRUP, SUGAR, SOYBEAN AND PALM OIL** (WITH TBHQ FOR FRESHNESS), **CORN SYRUP SOLIDS, DEXTROSE, HIGH FRUCTOSE CORN SYRUP, FRUCTOSE**, GLYCERIN, CONTAINS 2% OR LESS OF COCOA (PROCESSED WITH ALKALI), POLYDEXTROSE, MODIFIED CORN STARCH, SALT, DRIED CREAM, CALCIUM CARBONATE, CORNSTARCH, LEAVENING (BAKING SODA, SODIUM ACID PYROPHOSPHATE, MONOCALCIUM PHOSPHATE, CALCIUM SULFATE), DISTILLED MONOGLYCERIDES, HYDROGENATED PALM KERNEL OIL, SODIUM STEAROYL LACTYLATE, GELATIN, COLOR ADDED, SOY LECITHIN, DATEM, NATURAL AND ARTIFICIAL FLAVOR, VANILLA EXTRACT, CARNAUBA WAX, XANTHAN GUM, VITAMIN A PALMITATE, YELLOW #5 LAKE, RED #40 LAKE, CARAMEL COLOR, NIACINAMIDE, BLUE #2 LAKE, REDUCED IRON, YELLOW #6 LAKE, PYRIDOXINE HYDROCHLORIDE (VITAMIN B_6), RIBOFLAVIN (VITAMIN B_2), THIAMIN HYDROCHLORIDE (VITAMIN B_1), CITRIC ACID, FOLIC ACID, RED #40, YELLOW #5, YELLOW #6, BLUE #2, BLUE #1.

Valuable? Yes. Both Coke and Pepsi have widely recognized brands names, but Coke's brand may be is the most. Both companies brand are "fun and young", but Pepsi has stuck with its high energy, music and comedy-driven strategy while Coke can be seen constantly gravitating towards the emotional side of branding.

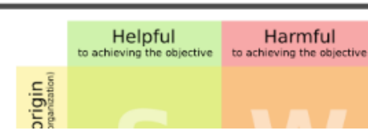
Rare: Yes. Given enough time and money, any product can be imitated. What makes Coke rare is their Secret Ingredient, and seeing how the market negatively reacted in 1985 display this. Both companies intangibles assets, such as their trademarks, expensive marketing/promotion strategy makes their products rare and led to brand loyalty.

Costly to imitate? No/Yes. the concrete manufacturing process involves little capital investement in raw material and labor. Machinery and high speed automatic production line make it hard to implicate Coke and Pepsi's product, when both companies invest million of dollars into these activites. Coke and Pepsi invest heavly in their trademark and promoting making it hard for substitues to survive in the industry.

Organized to Capture Value? Coke and Pepsi have expanded their products into international markets. Pepsi diversification of products, such as oatmeal, chip, Starbucks coffee allowing them to fully exploit their potential using their resoruces and capabilites more than Coke. Coke core competencies of leveraging their brand name into a diverse line of different kinds of beverages.



SWOT ANALYSIS



Dietary Fiber 25g 30g
Calories per gram:
Fat 9 • Carbohydrate 4 • Protein 4

SWOT ANALYSIS

S.W.O.T

Strengths
- The best global brand in the world in terms of value ($77,839 billion)
- World's largest market share in beverage
- Strong marketing and advertising
- Most extensive beverage distribution channel
- Customer loyalty
- Bargaining power over suppliers
- Corporate social responsibility

Weaknesses
- Significant focus on carbonated drinks
- Undiversified product portfolio
- High debt level due to acquisitions
- Negative publicity
- Brand failures or many brands with insignificant amount of revenues

Opportunities
- Bottled water consumption growth
- Increasing demand for healthy food and beverage
- Growing beverages consumption in emerging markets (especially BRIC)
- Growth through acquisitions
- Expanding product line beyond beverages

Threats
- Changes in consumer taste
- Water contamination in international markets.
- Strong dollar
- Legal requirements to disclose negative information on product labels
- Decreasing gross profit and net profit margins
- Competition from PepsiCo
- Saturated carbonated drinks market

Strengths
- Product diversity
- Extensive distribution channel
- Corporate Social Responsibility (CSR) projects
- Competency in mergers and acquisitions
- 22 brands earning more than $1 billion a year
- Successful marketing and advertising campaigns
- Complementary product sales
- Proactive and progressive

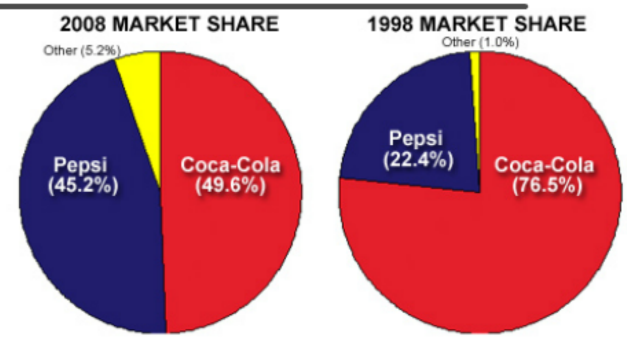
Weaknesses
- Over-dependence on Wal-Mart
- Low pricing
- Questionable practices (using tap water but labeling it as mountain spring water)
- Much weaker brand awareness and market share in the world beverage market compared to Coca-Cola
- Low profit margin

Opportunities
- Growing beverages and snacks consumption in emerging markets (especially BRIC)
- Increasing demand for healthy food and beverages
- Further expansion through acquisitions
- Bottled water consumption growth
- Savory snacks consumption growth

Threats
- Changes in consumer tastes
- Water scarcity
- Decreasing gross profit margin
- Changes in legal requirement
- Strong dollar
- Increased competition from Snyder's

Sustaining Competitve Advantage

Pepsi Competitive Advantage
During Cola-Wars



Pepsi's strategy to close the widening gap between Coke started with their "Beat Coke" campaign that helped increase their growth during the postwar era in supermarkets and convenience stores. Pepsi modernized their bottler's plants, which improved their delivery services. The 1974 "Pepsi Challenge" in Dallas, Texas consisted of a blind taste tests between Coke and Pepsi and which one was the preferred choice. After testing, it was shown that it was in fact Pepsi, not Coke that was the preferred taste. Due's to Coke's internal difficulties, execution failures, legal issues and strict reliance on a traditional CSD-oriented model made it easy for Pepsi to gain Coke's potential market share. Because of current trends, Pepsi became more flexible and created greater production differentiation by aggressively transitioning into the non-CSD market than Coke. For example, when Pepsi merge with Frito lay and Quaker oats.

PEPSICO