War For Management Talent In China: LEOX Design Partnership

Chinese Market

The Chinese Beverage Industry

Introduction

Packaging

5 Pepsi vs. Coke Commercials

Economies of the Soft Drink Industry: Bottlers

Economics of the Soft Drink Industry

Coca Cola History with China

Suppliers

US Packaging mix:
- Metal cans - 55%
- Plastic bottles - 40%
- Glass - 5%

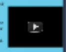
CPs and bottlers provided everything except for the packaging.
Coke & Pepsi are by far the can industry's largest customers.
1960's and 70's - Coke & Pepsi attempted to manufacture their own cans, but left the industry by 1990.

Coke & Pepsi in China

Economics of the Soft Drink Industry: Distribution

Coke & Pepsi Battle

MAX



COLA WARS Battle for China and Asian Markets

Difficulties of the Chinese Market

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Challenges to the Industry

Start of International Cola War

Chinese Soda Consumption

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Economics of the Soft Drink Industry: Distributors

Coke & Pepsi Battle

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COLA WARS

Battle for China and Asian Markets

TheCaseSolutions.com

Introduction

- During the 1990´s, the Cola kings were in a heated battle for international market share.
- Eastern Europe, China and Mexico were among some of the growing markets that Coca-cola and Pepsi fought over.
- China was seen as the most important market due to immense population and the lack of any consistent soft drink provider. The Chinese Market was open for either Coke or Pepsi to conquer.

Coke & Pepsi in China

- Coke & Pepsi entered the Chinese market within a year of each other
- 1994 - Coke had 19% market share; Pepsi had 9%
- Coke sold almost 135 million cases in 1994 and expected China to break into their top 25 markets after 15 years of entry.
- Coke had 23 bottling plants in China and $500 million invested by 1996
- Pepsi had 18 bottling plants in China and $600 million invested by 1996

Difficulties of the Chinese Market

- Both Coke & Pepsi had to learn how to establish profitable, efficient enterprises in a communist state.
- Traditional marketing techniques were constrained by Chinese culture therefore making it difficult to convince consumers that their cola was the right soft drink for them.
- Chinese investment laws compelled the two companies to partner with local ventures for entry. Coke & Pepsi had to wisely choose local Chinese businesses to trust with operations.

Economies of the Soft Drink Industry

3 Sectors

- **Concentrate and Syrup producers**
- **Bottlers**
- **Distributors**

Concentrate Producers (CP)

- **blend the necessary raw material (excluding sugars), package it into canisters and ship to bottler.**
- **One typical concentrate manufacturing plant costs $25 million to build in 1995, but can supply a nation the size of the US.**
- **Most significant costs are due to advertising, promotion, market research and relationship with bottlers**
- **Usually team with bottlers to cover certain promotional costs.**
- **Coke & Pepsi were CPs, as well as, franchisers and owners of bottlers while other international brands such as Dr. Pepper/Seven-Up, Cadbury Schweppes and RC Cola were strictly CPs**

Economies of the Soft Drink Industry: Bottlers

- In most countries, including China, company-owned and franchised bottlers bought concentrate and added sugar, high fructose corn syrup and carbonated water. Then, packaged the beverage in a can or bottle and delivered the product to venders.
- Coke & Pepsi bottlers offered "direct store door" delivery (DSD) where deliveries were made by delivery sales people who handled the the management of the soft drink in that store. For example, these salespeople would stack, position the label and clean the display area inside the store for the product.
- Bottling/canning lines in the US cost between $4-10 million per line
- Minimum cost for a small bottling plant - $20-30 Million
- Minimum cost for a large bottling plant - $30-50 Million
- Roughly 80-85 bottling plants are required to service the US
- Franchise agreements allowed bottlers to handle non-cola brands of other CPs, as well as, the choice of whether to market a new product of a CP. But they were restricted from carrying directly competitive brands

Economies of the Soft Drink Industry: Distributors

- 1993 - Coke & Pepsi each had 16% market share of all retail volume in the US
- 1994 - Breakdown of soft drinks distribution : 40% food stores; 17% fountain; 8% vending; 14% convenience stores and gas marts; 21% other outlets
- Coke & Pepsi each owned about 20-30% of their domestic bottlers
- Pepsi was asset-intensive and believed it had strong competencies of managing the capital-intensive bottling sector. They kept controlling interest in many of their international bottling plants
- Coke opted to create and sell 51% of Coca-cola Enterprises (CCE), which was a conglomeration of their company-owned bottlers responsible for 1/3 of bottled volumes. Coke retained 49% share. CCE had sales greater than $5 billion in 1992 as Coke´s largest bottler.