

Afterword

COCA-COLA AND PEPSICO SEARCH FOR GLOBAL OPPORTUNITIES

Coca-Cola and PepsiCo had to decide what to do next as they struggled against global trends that went against them and the competition between the two companies intensified. In the complex global environment in which they operate, they had to decide how population dynamics would affect the choices they make.

Market Saturation and the Search for Alternative Products

The core North American and European market on which the two companies depended was saturated; demand for sugary soft drinks had dropped. Both Michelle Obama and former New York mayor Michael Bloomberg had been outspoken about health issues linked to this type of beverage, and it would be very difficult for Coca-Cola and PepsiCo to raise U.S. consumption significantly.

Thus, the companies hedged their bets by acquiring the assets of alternatives to soft drinks. Via joint ventures, acquisitions, and investments of various kinds, they moved outside their mainstream businesses and became involved in the selling of teas, juices, sports drinks, energy drinks, bottled water, and new age and other beverage categories. For example, Coca-Cola partnered with Nestlé to market Nestea; it bought Minute Maid; it initiated the Powerade brand and its own line of bottled water, Aquafina; and it bought Odwalla juices and snack bars, Fuze tea and fruit drinks, Glaceau vitamin water, Zico coconut water, and Innocent, a British-based juice maker. Coca-Cola also made a 40% investment in Honest Tea, acquired a 10% stake in Green Mountain Coffee, and partnered with Core Power, the high protein drink.

PepsiCo, on the other hand, partnered with Unilever to market Lipton Teas. It bought Tropicana, Gatorade SoBe, Naked Juice, and Izze; it outbid Coca-Cola for Gatorade. It started its own line of bottled water, Dasani, and spent billions on a Los Angeles-based coconut-water company, a Russian dairy and juice maker, and a fortified water company in the U.K. The global competition between the two companies in soft drink alternatives, as well as

soft drinks, was very intense. These products had varying degrees of popularity in different countries with different demographic profiles.

Tea. Not surprisingly, the market for this product is very strong in countries like China, Japan, Taiwan, Thailand, and Hong Kong, as well as in the U.S.A., Germany, and other developed countries, most of which have elderly populations. Tea is also very popular in the middle-age nation of Indonesia.

The highest volumes of tea consumed in bottled or canned form in the world are in China and Japan. Growth in consumption is very high in Vietnam. However, in Asian nations where tea is popular, local brands like Ting Hsin and Uni-President dominate. Only in Japan does Coke have much market share.

Sports and Energy Drinks. In this category, the U.S.A. is the leader. Although consumption of this beverage was slumping in Japan, it is taking off in the elderly countries of Germany and China, and in the middle-age countries of Indonesia and Mexico. The world's dominant sport's brand is a PepsiCo product, Gatorade. Red Bull, an Austrian firm, and Monster have made significant gains globally. Monster has done very well in the U.S.A. and Red Bull has advanced globally. In the U.S.A., there are other companies competing in this market like Arizona and Rockstar, and globally there are companies like Suntory and Ito En with which Coca-Cola and PepsiCo compete.

Bottled Water. Bottled water health benefits are heavily touted in young and developing nations. Because of a lack of clean tap water, global demand for this produce is rising. Both PepsiCo and Coca-Cola have invested heavily in their bottled water brands, yet neither brand is the world's leader in this category, a distinction taken by Danone, which has sold bottled water under the brand names Evian, Aqua, Volvic, and Badoit. Danone owns Yili, Aqua in Indonesia, Sehat in Malaysia, Brunei, and Singapore, and Robust and Bonafont in Mexico, and has majority ownership of China's Wahaha. Both in the U.S.A. and abroad, the bottled water market is very fragmented with many small players. To try to stand out in this market PepsiCo has innovated a product full of vitamins and anti-oxidants called Propel Fitness. This product is likely to have most appeal in aging nations among fitness addicts. Consumption of other health and wellness drinks is growing globally. The market for these drinks, however, is very fragmented.

Juice. Growth in the consumption of juices is taking place mostly in elderly countries like Japan, the U.S.A., Russia, Germany, China, the U.K., Canada, and Poland, and in middle-age countries like Mexico and Brazil. Many companies participate in this market and it, too, is fragmented.

Carbonated Soft Drinks (CSDs). Coca-Cola and PepsiCo totally dominate the CSD market. Coca-Cola has capitalized on its brand name, but has not given up on product innovation – the company is committed to selling Coke Zero in 40 countries throughout the world. Zero was a very successful brand

launch. Its appeal was primarily to older demographics. The appeal of non-diet CSDs, on the other hand, is mostly to the young. These drinks are heavily advertised using celebrities that young people especially value, like sports heroes and successful musicians.

Snacks. PepsiCo has a large snack division, Frito Lay, upon which to fall back, which Coca-Cola does not have. In this category, PepsiCo is untouchable, dominating globally and in North America with major brands like Lay's and Ruffles Potato Chips, Dorritos and Tositos tortilla chips, Cheetos, and Fritos corn chips. PepsiCo's dominance of the snack food category, however, is a curse as well as a blessing as the company faces challenges about nutritional product content. In general, these nutritional changes are demanded more by elderly than youthful demographics, but there is a rising generation of young people that reject this type of indulgent snack and are looking for healthier alternatives.

Global Competition to Expand Company Reach

Thus, PepsiCo's global strength is in snacks while Coca-Cola excels overseas in beverages. Nonetheless, global competition between these two firms is intense. Though the U.S. and West European markets (where most nations are older) are mature, global markets (where there are many middle-age and young nations) are still very open. The two firms' best hopes for expansion therefore probably do not lie in the U.S.A. and in other older nations; rather, they rest in how well these companies are able to compete globally in middle-age and younger nations. Wherever these companies turn, however, global markets have the potential to be troublesome.

Japan. Young Japanese consumers are infatuated with high-margin vending machines, which have propped up this market in Coca-Cola's favor, but an aging population is buying more and more of its beverages in low-margin supermarkets. A significant portion of Japan's aging population is fairly affluent, which pushes up demand for value-added and premium beverages. Functional drinks that provide health benefits have become quite popular. However, the Japanese firms, Suntory and Kirin, both originally brewing companies, have been active suppliers of these beverages.

Mexico. In the middle-age country of Mexico, one of the main challenges that Coca-Cola and PepsiCo face is the rise of local brands – the upstart Kola Real, part of the Aje Group, has surprised both companies. Based in Peru, Kola Real has had success in creating a product a lot like Coke, but cheaper. The family-run firm moved to Venezuela and Ecuador, and then targeted Mexico, where soda consumption per capita is even greater than in the U.S.A. Coca-Cola's control of the Mexican market had been solid prior to Kola Real's entry. Kola Real puts its Big Cola product in large plastic bottles and sells it at

a steep discount in supermarkets. Supermarket chains are growing in Mexico, but because the margins in supermarket sales are so low, they have not been an outlet favored by Coca-Cola. Within a year of opening Kola Real's plant in Mexico, the company built market share. Its operations are without frills: it does little advertising; and it has its own distribution setup to get product to market, with hundreds of leased trucks pushing its cola into large grocery stores as well as small shops in rural locations. Coca-Cola's response to these problems was to use the advice of local business partners to adapt its products and advertising more to local tastes – it has engaged in aggressive marketing aimed at trend-setting Mexican teenagers. However, other companies have followed Kola Real's lead: an Ecuadorian company has launched a low-price cola called El Gallito, or Little Rooster, and Mexico's Guadalajara soccer club has introduced a brand called Chiva Cola. Other companies throughout Latin America have emulated Kola Real's success and are expanding their market share.

The Muslim World. In the Muslim world, where many countries' populations are extremely young, activists groups are calling upon consumers to boycott products like Coke and use Muslim products in their place. Local brands' revival has come on the heels of resentment toward "cultural imperialism." The Iranian cola company, Zam-Zam, is an emblem of opposition to the United States. Muslim alternatives to Coke have sprouted up throughout the world. Tawfiq Mathlouti, a Tunisian-born French businessman, set up Mecca Cola, which sells a Coke look-alike product. It relies on the slogan: "Don't drink stupid, drink with commitment." Mecca Cola promises that 20% of its profits will go to charities, such as Palestinian causes. Other Islamic alternatives on the market are Qibla Cola and Muslim Up. Qibla estimates it could sell millions of bottles among Muslim immigrants in Europe and it has plans to expand to middle-age Muslim countries like Turkey and young ones like Egypt. Muslim Up also operates among Muslim immigrants throughout Europe. It is unclear how Coca-Cola and PepsiCo should respond. To improve its image among global youth, Coke has introduced a new worldwide graphic to convey core values of authenticity, energy, and refreshment for those young people seeking to have fun. It enhances its local ties by doing community service projects that serve the young, such as giving educational grants to local charities. PepsiCo has tried to match these activities, making an appeal to youth via activities that have a distinct local orientation. For instance, it is a major sponsor of local sports teams that have special appeal to young people, and the company garners the support of celebrities adored by young people. Both PepsiCo and Coca-Cola have initiated many community projects which can benefit people in youthful countries. Consumption of soda drinks are growing rapidly in predominately Muslim countries that have large youthful populations. This market is not one that either company can ignore, but the

existence of niche producers prevents a high concentration of sales and presence in these countries.

India. India's median age in 2020 was 26.8. Therefore, it was on the cusp of moving from a young to a middle-age nation. The country was one of PepsiCo's top overseas priorities, but the company had been the target of repeated charges about its abuse of the country's scarce water resources. The charges were that it consumed excessive amounts of water and that its sodas contained water soaked with dangerous pesticides that poisoned people. Water has a special meaning and place in Indian culture where bathing is a sacred act. Over-pumping and poor management made water scarce, and poor sewage, industrial waste, and pesticide polluted it. Indra Nooyi, PepsiCo's Indian born CEO at the time, publicized the company's initiatives to improve water quality and the environment. She asserted that Pepsi was "a company with a soul" and emphasized its investments in educating communities where the young dominated in how to farm better and collect, retrofit, and recycle water. She defended PepsiCo by pointing out that the company often helped these villages dig new wells or harvest rainwater, and that it taught the villagers better agricultural techniques. Both Coca-Cola and Pepsi have tried to engage in extensive efforts to preserve and improve water quality in India and other developing countries.

Performance with a Purpose

Performance with a purpose was the slogan that Indra Nooyi introduced to PepsiCo – it was meant to appeal to young and old populations alike. Her aim was to position PepsiCo for future growth in which nutrition would play a much more central role. Many of the products that PepsiCo market are characterized as "good for you." Nooyi's aim is that these products will become a bigger part of PepsiCo's portfolio. As populations age and people focus on their health, Nooyi understands nutrition to be an opportunity and not a threat to the company. Healthy food categories will continue to grow much faster than less healthy categories among both old and young populations. Via the application of science and technology, Nooyi maintains that foods can be made healthier and they can taste great at the same time. She hopes that they can also become more affordable. The task that Nooyi has set before PepsiCo's scientists and technicians is to reengineer foods so that they contain less salt, fat, and sugar.

PepsiCo also initiated a major advertising campaign with great fanfare to the young. It was known as Pepsi Refresh. The company donated \$20 million to young people with "refreshing ideas" about how to change the world. Winning proposals were those that received the most votes on PepsiCo's website. Eighty million people made their preferences known on the website

and PepsiCo heavily advertised what ideas the company took up. Its funded projects did assist many people – they helped the homeless, built school playgrounds, established education programs for teenage mothers, and carried out many other worthy activities.

Coca-Cola's response

Coca-Cola has initiated its own global nutrition programs aimed at elderly and youthful populations. It conceptualizes its responsibility in terms of providing factual, meaningful, and easy-to-understand information for older consumers and engaging in initiatives to encourage young people to live active, healthy lifestyles. The company's foundation sponsors nutrition education programs about the importance of a balanced diet in many aging countries, including South Korea, Italy, and China. It promises to apply its product development expertise to the issues of malnutrition in young nations and obesity in older ones.

To deal with malnutrition in young nations, Coca-Cola offers nutrient-enhanced beverages. It has introduced products under the labels Nurisha and Vitingo to accomplish this goal. Examples of the products Coca-Cola has introduced to achieve nutrient enhancement are:

- Antiox with antioxidants from fruits (Spain);
- Kids+ Orange Juice with essential nutrients for children, including vitamins A, C, D, E, and calcium.
- NutriBoost Dairy and juice drink fortified with essential nutrients.
- Pulp Super Milky fortified with whey protein and containing fruit bits.
- NutriJuice fortified with four vitamins and minerals focused on providing iron to children with iron deficiencies.

Yet, Coca-Cola is emphatic that diet is not the only cause of obesity – the other main culprit is a lack of physical activity. On its website, it proclaims that “a high level of fitness” is “perhaps the strongest predictor of cardiovascular prognosis.” The website also celebrates the “more than 280 active, healthy living programs” that it has sponsored in over 115 countries worldwide. Coca-Cola has also started to test-market an all-natural stevia-based low-calorie cola called Coca-Cola Life. It has made the product available in both young and old nations to see how consumers will respond. The company's concern relates to the product's taste – it does not believe that the stevia taste will be satisfactory in some countries and consumers may rebel. When Coca-Cola tried a Vitaminwater/stevia combination, the company did receive many irate posts on its Facebook page.

Environmental Stewardship to Enhance Differentiation

The two companies have also competed for the hearts and minds of the world's young and old with projects that have an impact on the natural environment. For instance, Coca-Cola is a major water user globally. On its webpage it writes that achieving water security might be "humanity's most crucial task" and it has called upon world governments to reexamine the use of water in agriculture, to make investments in cities where pipes leak, and to optimize the use of water. The company points to its own water stewardship programs in treating and recycling wastewater and replenishing the water it uses in its beverages. Coca-Cola has spent \$2 million on the Global Water Challenge, a coalition of corporations and organizations based in the United Nations Foundation. In Kenya, where rural access to clean water is restricted, Coca-Cola has introduced water-purification systems and storage, and taught hygiene lessons in schools on using chlorine-based solutions to kill diseases. It has set up similar programs in 36 other countries, including India. Working with The Nature Conservancy, the company started to work more closely with the farmers and processors of its sugar, corn, and other ingredients.

PepsiCo has also augmented its water preservation-related activities. Like Coca-Cola, it has pledged support for the United Nation's declaration of water rights and incorporated the pledge into its operations. Both companies try to convince the public that they are consuming less water through enhanced conservation and efficiency. To publicize their efforts, PepsiCo has worked with NGOs and other organizations, issued reports, and launched web pages. Investors such as the pension fund of the Norwegian government and the California Public Employees' Retirement System wanted to know how water shortages might hurt the businesses of companies like Coca-Cola and PepsiCo, and they wanted these companies to reveal how they were addressing the issue. It is in Coca-Cola's and PepsiCo's interest to preserve water because they depend so heavily on it.

The pressure for disclosure not only applies to the use of water, but also to climate change. With regard to this issue, both Coca-Cola and PepsiCo are also active. Coca-Cola joined the Global Greenhouse Gas Register of the World Economic Forum as one of the earliest members, and along with the World Business Council for Sustainable Development and the World Resources Institute it adopted the Greenhouse Gas (GHG) Protocol, which aims to harmonize GHG accounting and reporting standards. Energy is a key focus of PepsiCo's climate change agenda. PepsiCo has purchased enough renewable energy to offset electricity use at all its U.S. operations, thereby achieving a top position on the U.S. Environmental Protection Agency's list of greenest energy users.

What Comes Next?

The question with which both these companies have to deal is what to do next. What goals should they set for themselves as they explore opportunities for global expansion? How should the world's population dynamics affect their decisions? What types of products should they be selling in which markets? What kinds of community involvement do they have to sustain to appeal to populations of all age levels?