Coca Cola Vs. Pepsi

- Underlying economics of the industry
- Value chain components
- Key features of the rivalry
- Role of globalization
- Future implications
Industry Structure

Suppliers

Concentrate Producers

Bottlers

Buyers

What goes into a can of Coke?

Fountains
Vending
Food Stores & Supermarkets
Warehouse Clubs
Profitability

- Suppliers
  - Raw Materials? Costs?
  - Gross Margins/Pretax Profits? Why?
- Concentrate Producers
  - Typical Investment?
- Bottlers
  - Gross Margins/Pretax Profits? Why?
- Buyers
  - Types? Differences?
### Exhibit 3  Comparative Cost Structure and Financial Structure of a Typical U.S. Concentrate Producer and Bottler (per standard 8-oz. /24-bottle case), 1993

<table>
<thead>
<tr>
<th></th>
<th>Concentrate Producer</th>
<th>Bottler</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollars per Case</td>
<td>Percent of Total</td>
</tr>
<tr>
<td><strong>Profit and Loss Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>.66</td>
<td>100%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>.11</td>
<td>17%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>.55</td>
<td>83%</td>
</tr>
<tr>
<td>Selling and delivery</td>
<td>.01</td>
<td>2%</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td>.26</td>
<td>39%</td>
</tr>
<tr>
<td>General and administration</td>
<td>.05</td>
<td>13%</td>
</tr>
<tr>
<td>Pretax profit</td>
<td>.23</td>
<td>29%</td>
</tr>
</tbody>
</table>

### Balance Sheet Data

<table>
<thead>
<tr>
<th></th>
<th>Concentrate Producer</th>
<th>Bottler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, investments</td>
<td>.12</td>
<td>.16</td>
</tr>
<tr>
<td>Receivables</td>
<td>.32</td>
<td>.30</td>
</tr>
<tr>
<td>Inventories</td>
<td>.02</td>
<td>.16</td>
</tr>
<tr>
<td>Net property, plant &amp; equipment</td>
<td>.07</td>
<td>.82</td>
</tr>
<tr>
<td>Goodwill</td>
<td>.03</td>
<td>1.37</td>
</tr>
<tr>
<td>Total assets</td>
<td>.56</td>
<td>2.81</td>
</tr>
<tr>
<td>Pretax profit/total assets</td>
<td>.41</td>
<td>.10</td>
</tr>
</tbody>
</table>
Value Chain & Profitability

- Would you rather be a CP or a bottler? Why?
- Why would a CP also want to be a bottler (vertical integration)?
Value Chain & Profitability

Would you rather be a CP or a bottler? Why?

- Concentrate Business
  - High margins, high returns and cash generation
- Bottling Business
  - Low margin, low return, capital intensive and high debt creation
Value Chain & Profitability

- Why would a CP also want to be a bottler (vertical integration)?
  - More control of bottling network (economies of scale)
  - Can introduce more new products/packages
  - Can switch production configuration at short notice
  - Reduce transaction costs
    - Can introduce greater price flexibility, more responsiveness, less haggling
Value Chain & Profitability

- Would you rather be a bottler in NYC or OKC? Why?
Value Chain & Profitability

Would you rather be a bottler in NYC or OKC? Why?
- Economics of distribution
- 28% of bottler costs = selling & delivery
- NYC = small drop sizes, multiple stores, parking hassles
- OKC = large drop sizes, mainly supermarkets & warehouses
Porter’s Five Forces Model

- New Entrants
- Suppliers
- Industry
- Customers
- Substitutes
Porters Five Forces Model

- Substitute Products
  - What are the substitutes?
    - Water, coffee, juice, etc.
    - Substitutes cheaper or free but not necessarily available conveniently
  - Why do consumers still pay (a lot) for Coke?
    - Lifestyle choices
    - Americans drink more soft drinks than any other beverage
    - Overseas, Coke/Pepsi can be status symbols
    - Coke is addictive!
FACT

About half the consumption of Coke comes from people who drink an average of 8 cans per day!

-- Andy Pearson, Coca-Cola Inc.