Pepsi versus Coke: an unhealthy obsession?

They are global, but are they relevant?

Yesterday's global conflict?

There was a time when a feature article on Pepsico or Coca-Cola, or preferably them both, would stir the blood; they represented the cutting edge of business, particularly marketing, and their global reach was simply breathtaking. Name a country that you could hardly find on a map and, guess what, both cola giants were already on the ground and fighting hard for market share.

Their advertising had come to define what it meant to be young, even though their customer base spanned the generations. Their brand managers provided the case studies for business schools, effectively becoming the role models for the next wave of marketers. They personified the movement towards globalization. They were symbolic of capitalism, but also cool.

Looking back these seem like innocent times. It was a time when syrupy, sugary fizz could conquer the world and be worth billions. They still do, of course, but the gloss has gone off the business. You could say it has gone flat. With health concerns in many developed societies regarding rising levels of obesity and type-two diabetes Pepsi and Coke have found themselves cast in the roles of prime suspects, joining a roll call of 1980s Wall Street's great and the good.

So is our obsession with them, not to put too fine a point on it, unhealthy? And are they yesterday's dinosaur corporations fighting yesterday's battles for ever fewer returns while the world marches on without them?

In corporate life, things are rarely as simple as they seem.

Reinvention in turbulent times

In business the dinosaur metaphor is a popular one, and so too is that of the chameleon corporation. Transformational change has rarely been more popular, adaptation is widely agreed to be the key to survival. Both companies have embraced these strategies aggressively – passivity not being part of their corporate language. The signs are that it is working reasonably well for Pepsico, but for Coke there is possibly more wind than fizz.

As both companies have shifted focus into more health conscious segments Coke struggled badly with its Dasani water and there are strong signs that their Minute Maid fruit juice brand is struggling and set to do worse. For Coke, success has come from Coke Zero and other variations on its core product, but an over-reliance on carbonated drinks has led to concerns among commentators as to the long term viability of the strategy.

 VOL. 24 NO. 1 2008, pp. 6-8, © Emerald Group Publishing Limited, ISSN 0258-0543 DOI 10.1108/02580540810839269

By way of contrast, Pepsico have become the dominant player in the pure juice market. Their Tropicana, for example, holds 21 percent of the UK market compared to Minute Maid's one percent. Pepsico are on the move. They are stepping up the pace of corporate acquisitions. They have a diverse portfolio, and they are able to introduce new products faster than Coke.

None of which guarantees that Pepsico will find life to be easy.

Pepsico's Indian attack

In addition to health consciousness, another megatrend is environmental awareness, and new challenges await Pepsico globally and have hit them in India. And something else is at work. With identities becoming less certain in a globalized world, people are searching for what makes them distinctive, as are nations. Global issues play out in a local way. What is important in one country may run much, much deeper in another.

In India water management is a big issue. Scarcity of water is a real challenge. And clean water can't be taken for granted. When local protestors accused Pepsi of excessive consumption of groundwater, and were also allowing water contaminated with pesticide residue to be used in the production of locally produced cola, the repeated nature of the claims meant that the dirt stuck, despite corporate denials. In fact the issue rather spun out of hand.

Part of the backlash can be attributed to a growing sense of unease in developing nations that global companies are taking more than their fair share of resources. The complaints against Pepsico resonated in India. They could be seen within a worldwide context of corporate social irresponsibility – examples of profits seemingly at all costs.

In the damage limitation exercise that followed, the robust defence of the company's position was perceived as arrogant, even bullying. Local campaigners declared Pepsi unfit to be consumed. The tag stuck. Pepsi had become associated with pesticide contamination – another big issue in India. A number of seeds of discontent had become sown on one battlefield.

Pepsi have since strived to play the good citizen – with charitable clean water initiatives, a reduction in water consumption and, as might be anticipated, an expensive communications and promotional campaign. But the damage to the brand has been severe and the recovery slow.

Pepsi had failed to deeply understand local sensitivities in even this largest of international markets. And not dissimilar circumstances await others without the means to listen and demonstrate some sensitivity.

An unexpected battle in Iran

The reach of the cola giants can still surprise. Even Iran, a country thought by many to be caught in an iron grip of American sanctions is not off limits. Such sanctions do not apply to foodstuffs and, by licensing via their Irish subsidiaries; both are thriving in what could be considered a hostile environment. It is certainly an environment hostile enough for Iranian hardliners to denounce any spending on Coke or Pepsi as paying money to save Israel, and for others to want to ban all American brands.

Both corporate giants are able to shrug off the rhetoric and general backdrop of bad vibrations from both America and Iran, comply with the legislation in place, and pronounce business as usual. This is partially true. Both are seeking to maximize their position relative to

"For Coke, success has come from Coke Zero and other variations on its core product."

each other, but also face a powerful local operator in Zamzam which is keen to defend an estimated half share of a market worth around $1 billion per annum.

But other factors are at work. Revolutionary politics over many years has made the position of both Pepsico and Coca Cola chaotic in the Iranian marketplace. Strategies are, however, in place to remain even if America and Iran ultimately go to war. Coke at least may be able to adopt local branding and remerge with their global brand once it is acceptable to do so. It is a complex situation, but a profitable one.

In conclusion

There is much to be learned still from the cola wars and the propensity remains for them to continue to surprise. They remain fresh. They are not yesterday's war.

The challenges they face can be extrapolated to any global business – the depth of understanding that is needed of individual country marketplaces for example, and the impact of international politics.

Both Pepsico and Coke seem able to hang in there, to adapt their product range and to respond to local market needs and sensitivities. Sometimes it is clumsily, but then nobody is perfect.

Comment

''Is there still fizz in Coke?'' by John Reynolds in *Marketing Week* tracks the recent evolution of both companies from a product marketing perspective and is a good introduction to the fight that continues between the two corporate behemoths.

''Pepsi: repairing a poisoned reputation in India'' by Diane Brady in *BusinessWeek* looks at a specific brand management crisis, but relies heavily on the context of broader social responsibility themes and trends to make its point. It's an interesting article, but cries out for a few well chosen statistics.

''Iran's cola war'' by E. Ellis writing in *Fortune* confirms the companies' ability to surprise. It is a little thin on detail and strong on journalistic mood music, but a novel contribution.

Keywords:
International business,
Brand management,
Soft drinks,
India,
Iran

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