

# Coca-Cola and Pepsi Look to Developing Countries to Maintain Sales

## *The Coca-Cola Company*

The market for soft drinks in North America and Western Europe has leveled off recently. According to Coca-Cola's 2006 Annual Review, there was no growth in unit case volume sales in North America from 2005 to 2006.<sup>1</sup> With sales levels stagnant in these markets, Coca-Cola has turned to emerging markets in efforts to maintain growth of the brand and increased profits.

As Coca-Cola president and chief operating officer, Muhtar Kent, stated in April 2007:

When we walk around the U.S. market, it's like we've lost the drive to create impulse and we want to bring that back . . . In Latin America, Europe, Asia, North Africa, it says everywhere 'Ice cold Coke served here.' Not in the U.S. . . . You'll see our sense of urgency.<sup>2</sup>

In response to such "challenges" Coca-Cola has committed to spending considerable amounts of money to market its brand worldwide and seems to be "winning" the battle to increase sales internationally.

Since 1994, Coca-Cola's non-U.S. media spending has steadily grown from \$500 million to \$1.176 billion in 2000. By comparison, US media ad spending was in 2000 was \$403 million.<sup>3</sup> Coca-Cola's total advertising budget was estimated at \$2.4 billion in 2006.<sup>4</sup> This focus on markets outside of North America has served Coke's bottom line well, as consumption levels and sales volumes have increased in global markets in recent years.

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<sup>1</sup> Coca-Cola Company. 2006 Annual Review. <http://www.thecoca-colacompany.com/investors/annualandotherreports/2006/index.html> (Accessed April 16, 2007).

<sup>2</sup> Kavilanz, Parija B. Coke Expects More Weakness at Home in '07. *CNN Money.com*. <http://money.cnn.com/2007/04/17/news/companies/coke/index.htm> (Accessed July 31, 2007).

<sup>3</sup> Hawkes, Corinna. *Marketing Activities of Global Soft Drink and Fast Food Companies in Emerging Markets: A Review*. Chapter in World Health Organization Report Globalization, Diets and Noncommunicable Diseases, 2002, page 19.

<sup>4</sup> Markoff, M. Inform Yourself, boycott Coca-Cola. *Daily Bruin*. <http://www.dailybruin.ucla.edu/news/2006/may/30/inform-yourself-boycott-coca/> (Accessed September 26, 2007).

According to a 2002 report, “70 percent of Coca-Cola’s worldwide volume sales are outside North America . . . and on average a person now consumes 70 Coca-Cola drinks each year.”<sup>5</sup> In 2006, 73 percent of worldwide volume was outside of North America.<sup>6</sup>

Coca-Cola organizes itself along regional lines, and using the company’s regional delineations, the sales and consumption patterns of several of its most successful global markets outside the United States and Western Europe are outlined below.

### **North Asia, Eurasia, and the Middle East**

Coke’s sales in 2005 increased 11 percent in North Asia, Eurasia, and the Middle East. China experienced a 15 percent growth in unit case volume in 2006.<sup>7</sup> Even with this double digit growth in sales, the market in China is far from saturated. In 2005, Coke had 55 percent of the market in China (PepsiCo had 27 percent, the remainder was held by local brands) and annual per capita consumption was 27 eight ounce servings.<sup>8</sup> Clearly, there is considerable room for growth in China, and Coke is focusing on the Chinese market, with “long-term investment plans to expedite the already fast-growing China business.”<sup>9</sup>

### **Latin America**

Latin America is another hugely successful growth market for Coke. Unit case volume grew by 7 percent from 2005 to 2006, and annual per capita consumption across the region (defined as eight ounce servings) has steadily grown from 108 servings in 1986 to 235 servings in 2006.<sup>10</sup> Those figures are driven by consumption patterns in Brazil and Mexico, which in 2005 had per capita consumptions of 308 servings and 607 servings, respectively.<sup>11</sup> Recognizing the potential for growth, “in 2002 Coca-Cola announced a bid to push Brazil past Mexico. ‘Brazil has approximately 70 percent more people than Mexico and still consumes a third of what Mexicans

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<sup>5</sup> Hawkes, Corinna. *Marketing Activities of Global Soft Drink and Fast Food Companies in Emerging Markets: A Review*. Chapter in World Health Organization Report *Globalization, Diets and Noncommunicable Diseases*, 2002, pg. 1.

<sup>6</sup> Coca-Cola Company. 2006 Annual Review. <http://www.thecoca-colacompany.com/investors/annualandotherreports/2006/index.html> (Accessed April 16, 2007).

<sup>7</sup> *Ibid.*

<sup>8</sup> Beverage Digest. *The Green Sheet 2005 All-Channel Carbonated Soft Drink Corporate Shares in 95 Countries*. September 22, 2006.

<sup>9</sup> Coca-Cola Company. 2006 Annual Review. <http://www.thecoca-colacompany.com/investors/annualandotherreports/2006/index.html> (Accessed April 16, 2007).

<sup>10</sup> *Ibid.*

<sup>11</sup> Beverage Digest. *The Green Sheet 2005 All-Channel Carbonated Soft Drink Corporate Shares in 95 Countries*. September 22, 2006.

consume. There is an enormous space for growth here,' said a spokesman."<sup>12</sup> Brazil is now Coke's third largest market based on case volume sales, trailing only the United States and then Mexico.<sup>13</sup>

## **Africa**

Coke has recently started to heavily invest in the African market. "Africa was actually a low priority region for Coca-Cola until 1997 when citing rapid population growth and disproportionately low sales, the company developed a new market strategy aiming to double sales in 5 years."<sup>14</sup>

Indeed, per capita consumption in Africa has grown from 18 servings in 1986 to 37 servings in 2006.<sup>15</sup> Unit case volume sales are up 4 percent from 2005 to 2006.<sup>16</sup> This growth was predominantly driven by 23 percent unit case volume growth in Egypt, after Coca-Cola opened a new divisional office in Cairo.<sup>17</sup>

Coke has clearly decided to focus its energies on emerging markets throughout the world and Coke can honestly brag about increasing its sales volume on a global scale. However, as new countries are aggressively targeted by Coke's marketing machine, dietary patterns change, and the rate of western-style diet-related diseases increase.

## *PepsiCo Inc.*

As the second biggest soft drink marketer, PepsiCo "operates in approximately 200 countries."<sup>18</sup> PepsiCo is experiencing some of its largest growth rates in terms of volume sold in places such as China and the Middle East. In 2006, PepsiCo International's beverage division reported 9% volume growth, "reflecting broad-based increases led by double digit growth in the Middle East,

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<sup>12</sup> Hawkes, Corinna. *Marketing Activities of Global Soft Drink and Fast Food Companies in Emerging Markets: A Review*. Chapter in World Health Organization Report Globalization, Diets and Noncommunicable Diseases, 2002, page 41.

<sup>13</sup> Coca-Cola Company. 2006 Annual Review. <http://www.thecoca-colacompany.com/investors/annualandotherreports/2006/index.html> (Accessed April 16, 2007).

<sup>14</sup> Hawkes, Corinna. *Marketing Activities of Global Soft Drink and Fast Food Companies in Emerging Markets: A Review*. Chapter in World Health Organization Report Globalization, Diets and Noncommunicable Diseases, 2002, page 40.

<sup>15</sup> Coca-Cola Company. 2006 Annual Review. <http://www.thecoca-colacompany.com/investors/annualandotherreports/2006/index.html> (Accessed April 16, 2007).

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> PepsiCo Inc. 2006 Annual Review. *Performance with Purpose*. [http://www.pepsico.com/PEP\\_Investors/AnnualReports/06/PepsiCo2006Annual.pdf](http://www.pepsico.com/PEP_Investors/AnnualReports/06/PepsiCo2006Annual.pdf) (Accessed May 31, 2007).

China, Argentina, Russia and Venezuela. The Europe, Middle East and Africa region grew 11%, the Asia Pacific region grew 9% and the Latin American region grew 7%.”<sup>19</sup>

A considerable amount of PepsiCo’s growth in volume sales, as well as some of their largest market shares, comes from various developing countries and regions, a fact that is trumpeted proudly in the company’s Annual Report. “In developing markets, such as China, Pepsi is the leading soft drink.”<sup>20</sup> In the Europe, Middle East, Africa region, PepsiCo International commands 45% of the beverage volume. In the Latin America region the company has a 29% share of the beverage volume, and in Asia, a 26% share of beverage volume. PepsiCo believes that its “beverage portfolio is well-positioned to take advantage of rising consumption in developing markets,”<sup>21</sup> supporting the notion that the company is specifically targeting developing countries in order to increase their profits.<sup>22</sup>

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<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

<sup>21</sup> *Ibid.*

<sup>22</sup> Cadbury Schweppes had been a major player in the soft drink industry but according to the company’s 2006 annual report, the corporation sold its European, Syrian, and South African beverage businesses. The company is now focusing primarily on the North American and Australian markets. [http://www.cadburyschweppes.com/NR/rdonlyres/38974571-02CF-408B-A707-C379C2DF18A3/0/Cadbury\\_Report\\_LoRes.pdf](http://www.cadburyschweppes.com/NR/rdonlyres/38974571-02CF-408B-A707-C379C2DF18A3/0/Cadbury_Report_LoRes.pdf), pg. 24. (Accessed September 26, 2007). As such, Cadbury Schweppes is discussed in the context of the soft drink industry’s efforts to maintain sales in the United States and other developed countries.