

FUTURE
COLA

STRATEGIC ANALYSIS WAHAHA FUTURE COLA

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Executive Summary

Current report discusses Cola Wars in China specially focusing on Future Cola, its business strategy, competition and for future. The reports answers five questions related to the case of cola in China. These questions include; 1 How effective is the positioning of Future Cola?; 2 What are the factors that have contributed to Future Cola's growth so far?; 3 How might Coca Cola and Pepsi Co. respond to Wahaha in the carbonated drinks category?; 4 What should Wahaha do to anticipate and respond to the next level of competition?; 5 what other strategies and tactics could Future Cola employ to continue to grow its market share?

The author has used different tools to answer these questions including SWOT, PEST, Five Forces Model, Ansoff Matrix, Core Competencies and Competitive Advantages. To measure the effectiveness of Strategic Positioning of Future Cola the author first analyzed its strategic positions using competitive advantage theory followed by SWOT and PEST analysis as well as porter's five forces model which helped to explore the strengths, weaknesses, opportunities and threats for the business. Also the political, social, economic and technological factors that are contributing to the success of Future cola have been discussed. Also the business environment was analyzed by identifying threats of substitute products, threat of new products, intense rivalries among existing players, bargaining power of suppliers and bargaining power of buyers.

It was found that Future Cola has become a successful brand and is competing with international brands in China because it has been advertised as a patriotic brand Intelligent. Further Wahaha Group holds vast wholesale and retail network. Also the prices of Future Cola are low as compared to other brand.

Pepsi and Coca Cola can meet the rising demand and success of future bola by adopting a localized marketing strategy, lowering prices and introducing new flavors that are close to the taste that Chinese people like.

Report also offers recommendation to Future Cola for becoming leader in China and for succeeding globally. These recommendations include; target developing nations, focus on local tastes and trends, target consumer lifestyle, gender and culture, offer medium calorie drinks as well as drinks with natural ingredients



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Q-1. How effective is the positioning of Future Cola?

Strategic Positioning

“Pretax profit last year at Hangzhou Wahaha, the Chinese beverage giant controlled by the country’s richest man Zong Qinghou, climbed by 18% to 10.1 billion Yuan, or \$1.6 billion, amid a fall in raw material costs, a company spokesman told Forbes”.
(Forbes, 2013)

The Company started its operations in 1987 as a milk factory that was run by a School with the goal of providing children with nutrient drinks. The company is among top five global beverage producers. Future Cola was introduced by Wahaha Group of China in 1998 at the time when carbonated drinks had become popular and this category was covering half of the volume of the soft drink industry. In 1997 the output of cola in China was 1.36 million with 80% combined market share of Pepsi and Coca Cola. Currently on number three in China and Number five in the world among soft drink manufacturers Wahaha has successfully achieved and maintained its position. (Nancy Dai, 2004)

Competitive Advantage

The competitive advantage of Future Cola lays in its generic business strategy that differentiation strategy.

- The Future Cola gained success because the CEO was prepared on how multinationals will respond to this new brand and prepared to compete with response as well increase its market share in the future. (Nancy Dai, 2004)
- The outward evidence of competitive advantage for Future Cola can be seen in its success in China as third major soft drink in China and high growth in sales.
- Future Cola is enjoying superior delivered cost position due to low costs

- Future Cola also has differentiation advantage because it is different from international brands and close to the Chinese taste and culture. Positional advantage has many benefits and cannot be exploited

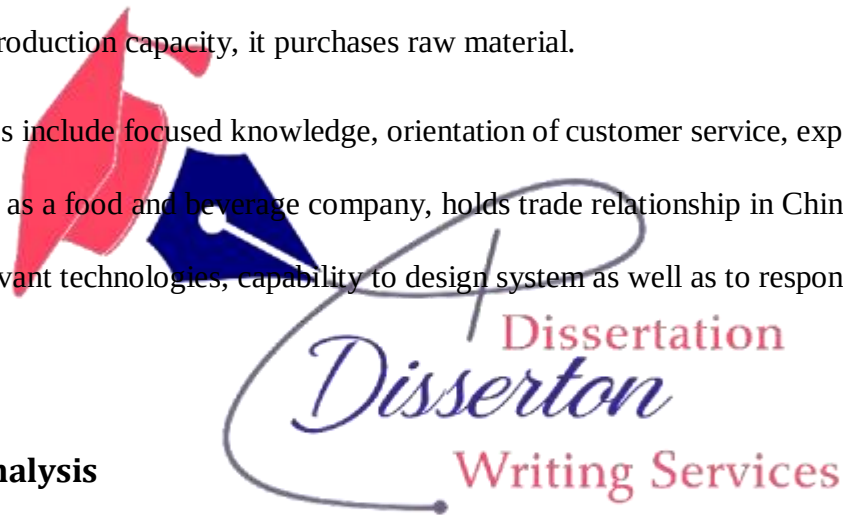
In theory, the competitive advantage is described from two perspectives;

1. Resource
2. Capabilities

As regards resources Future cola has competitive advantage that because it has vast distribution network, financial capacity, its manufacturing and distribution network in low cost, has production capacity, it purchases raw material.

Capabilities include focused knowledge, orientation of customer service, expertise in design, experience as a food and beverage company, holds trade relationship in China, is able to utilize relevant technologies, capability to design system as well as to response capability.

SWOT Analysis



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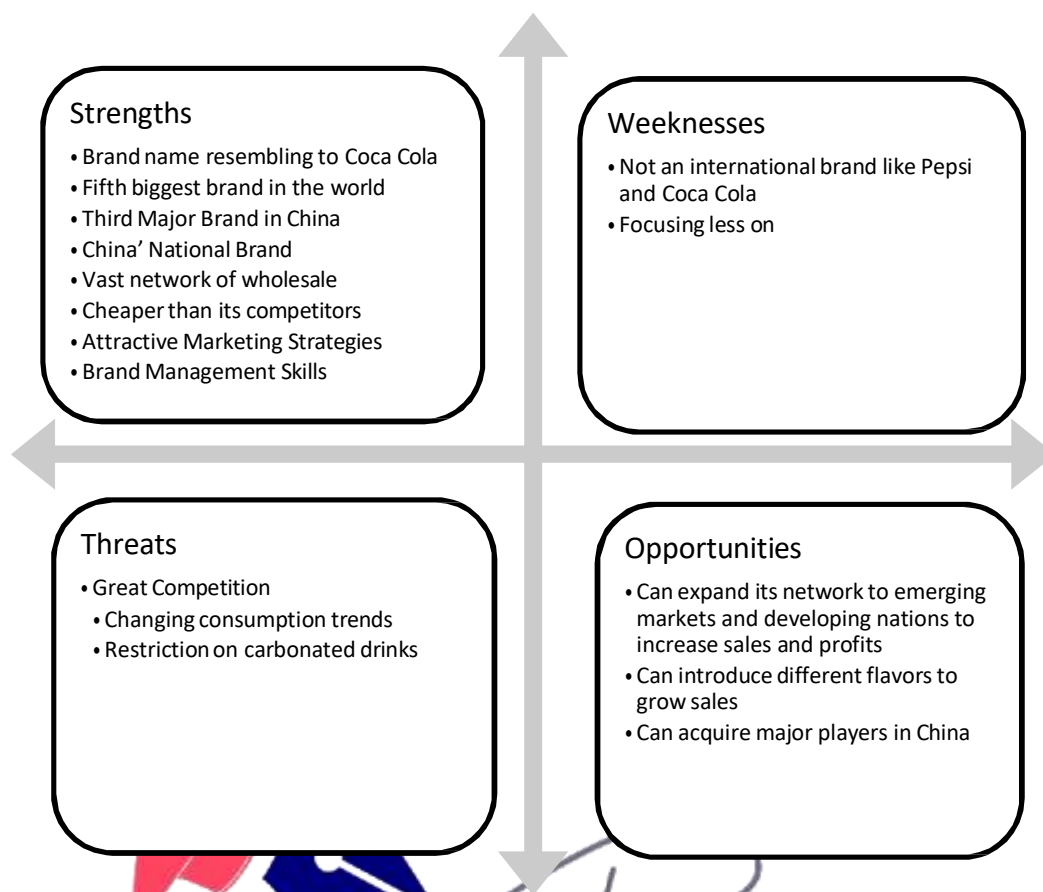


Figure 1-SWOT Analysis Future Cola

Strengths

- Brand name resembling to Coca Cola which is already familiar
- One among the five biggest brands in the world
- Third Major Brand in China
- Established as China' National Brand
- Vast network of wholesale
- Cheaper than its competitors
- Attractive Marketing Strategies and Brand Management Skills

Weaknesses

- Not an international brand like Pepsi and Coca Cola
- Focusing less on

Opportunities

- Can expand its network to emerging markets and developing nations to increase sales and profits
- Can introduce different flavors to grow sales
- Can acquire major players in China

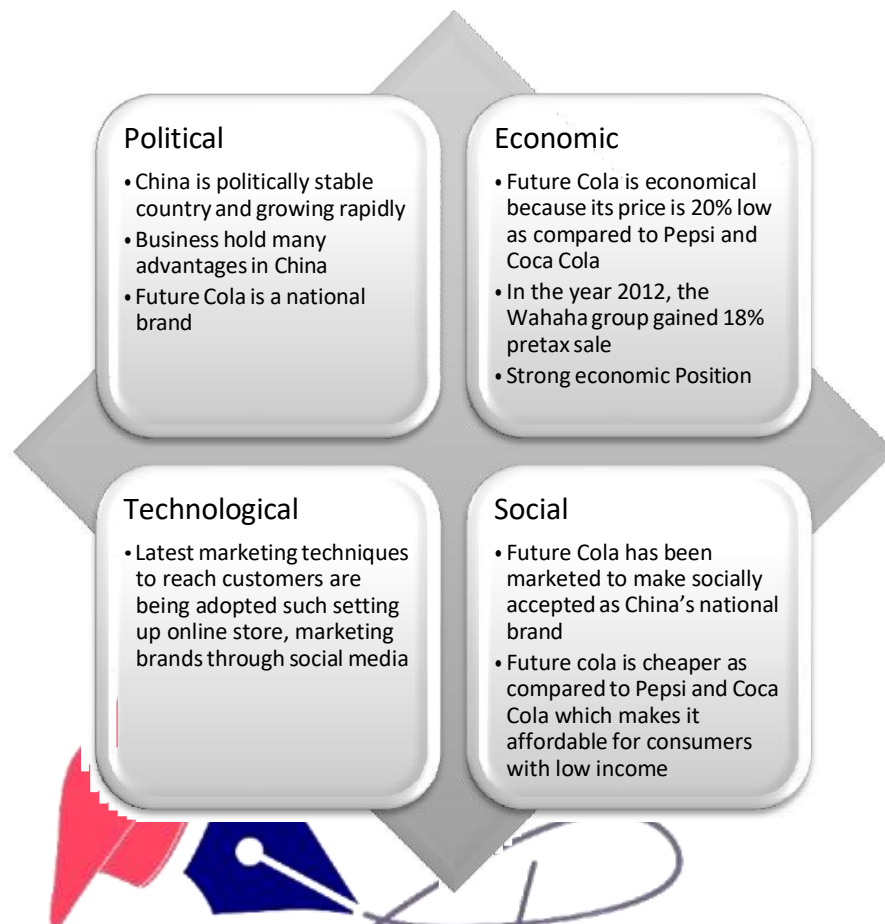
Threats

- Great Competition with presence of major brands
- Changing consumption trends
- Restriction on carbonated drinks

PEST Analysis



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Political

- China is politically stable country and growing rapidly
- Business hold many advantages in China
- Future Cola is a national brand

Social

- Future Cola has been marketed to make socially accepted as China's national brand
- Future cola is cheaper as compared to Pepsi and Coca Cola which makes it affordable for consumers with low income

Economic

- Future Cola is economical because its price is 20% low as compared to Pepsi and Coca Cola

- In the year 2012, the Wahaha group gained 18% pretax sale
- Strong economic Position

Technological

- Latest marketing techniques to reach customers are being adopted such setting up online store, marketing brands through social media

Q-2 What are the factors that have contributed to Future Cola's growth so far?

Key Factors behind Future Cola Growth



Figure 2-Future Cola-Competitive Advantage

Future Cola is a carbonized beverage with cola flavor produced by Wahaha group of China and has a 7% market share in China. Wahaha Company is the third largest soft drinks manufacturing company in China after Coca Cola and Pepsi cola. Below is a description of key factors that contributed to the growth of Future Cola.

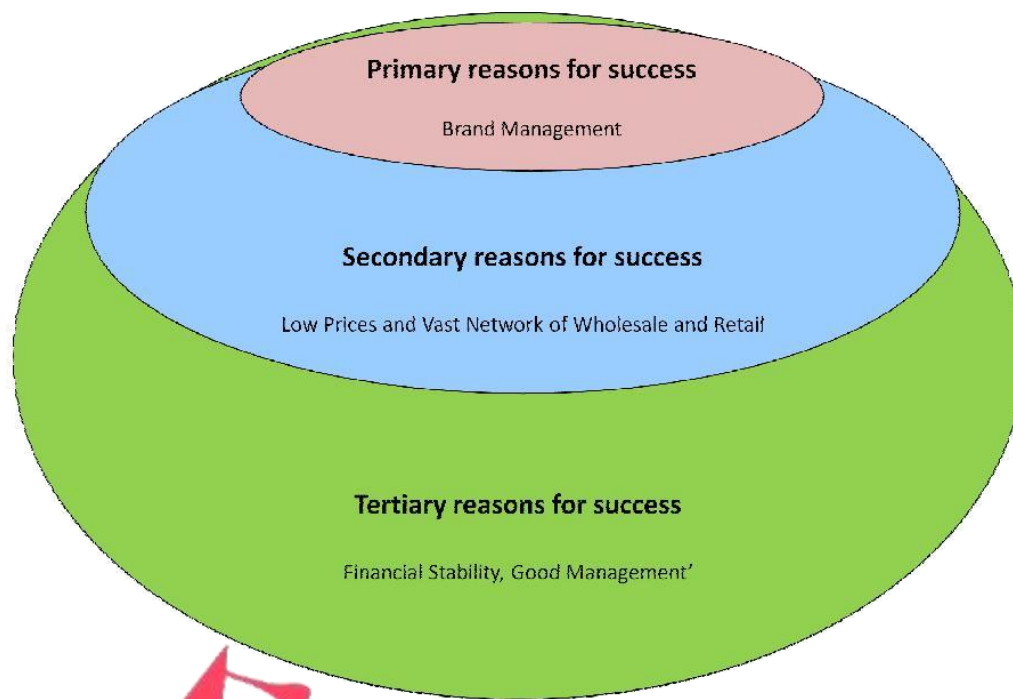


Figure 3-Core Competencies of Future Cola

Patriotic Brand

The company achieved this position through its strategic management. In the beginning it was promoted as a patriotic brand as well as a symbol of happiness and luck. The flavor of the Future Cola was modified as per Chinese taste.

Vast Wholesale and Retail Network

The company used its previously established huge network of retail and wholesale. Further company targets consumers with lower income especially peasants and villagers. Thus Future Cola gained competitive advantage because the big brands like Pepsi and cola were not established in rural China.

Low Price

The price of Future Cola is 20% less than both Pepsi and Coca Cola which is also a plus point in favor of this brand. Chinese like to buy Future Cola for two reasons; one it is a national brand and they reveal their patriotism by purchasing it, second it is cheap as compared to Coca Cola and Pepsi Cola and people with low income like to buy it.

Intelligent Marketing Strategy and Brand Management

Besides its low prices and vast wholesale and retail network the key factor behind the success of Future Cola is its brand management and marketing strategy. Zhong the CEO of Wahaha thought and did research as why domestic brand are not becoming successful and found that domestic brands lack a good brand management strategy so he created a brand management and marketing strategy for Future Cola. It was marketed as Chinese people's drink and gained so much mass approval that even Wahaha Group was surprised as its demand was beyond their expectations.

Porter's Five Forces Model



Figure 4-Porters Five Forces Model and Future Cola

1 Threats of substitute products

The substitute products of Future Cola are Pepsi and Cola and brand is still behind these two in the competition both in China as well as globally. In addition to Pepsi Cola and Coca Cola, Wahaha group is currently competing Want Want, Uni-President and Tingyi.

2 Threat of new products

Soft Drink industry is highly competitive and fast growing industry. There are many brand in the markets such as Pepsi, Coca Cola, Cadbury and new brands are entering. So, there is possibility of new entrants that can acquire market share.

3 Intense rivalries among existing players

Soft Drink industry is highly competitive with many players competing in the market. However, Future Cola has the advantage of being a national brand, good market share, low prices and a great business strategy.

4 Bargaining power of suppliers

Company is enjoying monopoly so it has power to set prices and gain more profits.

5 Bargaining power of buyers

There is high competition however Future Cola because it is 20% cheaper as compared to its competitors

Q-3 How might Coca Cola and Pepsi Co. responds to Wahaha in the carbonated drinks category?

Coca Cola and Pepsi cola have been strong brands in China and since maintaining their leading position. Future Cola has competed successfully since its inception in 1998. However the position of both is at risk with the speed Future Cola is making its position. It was 2002 when both companies realized this risk and started taking different steps to maintain their position. These steps include lowering prices in some markets, new ways of advertising and other strategies. For example, Coca Cola started its advertising on CCTV and signed local pop singers for its brand endorsements.

Pepsi and Coca Cola can take following steps to respond to Wahaha carbonated drinks;

- Lowering prices to attract rural consumers as they cannot afford high prices and can buy Future Cola easily.
- Introducing drinks that meet the Chinese taste
- Creating marketing strategy according to the culture of China

There are two types of marketing; consumer marketing and business marketing. In consumer marketing businesses adopt processes to provide products and services to consumers meeting their needs whilst business-to-business marketing is a process in which supplier capabilities are matched and combined with the outcomes desired by customers for creating value for customers of both organizations. (Vitale & Giglierano 2002,5)

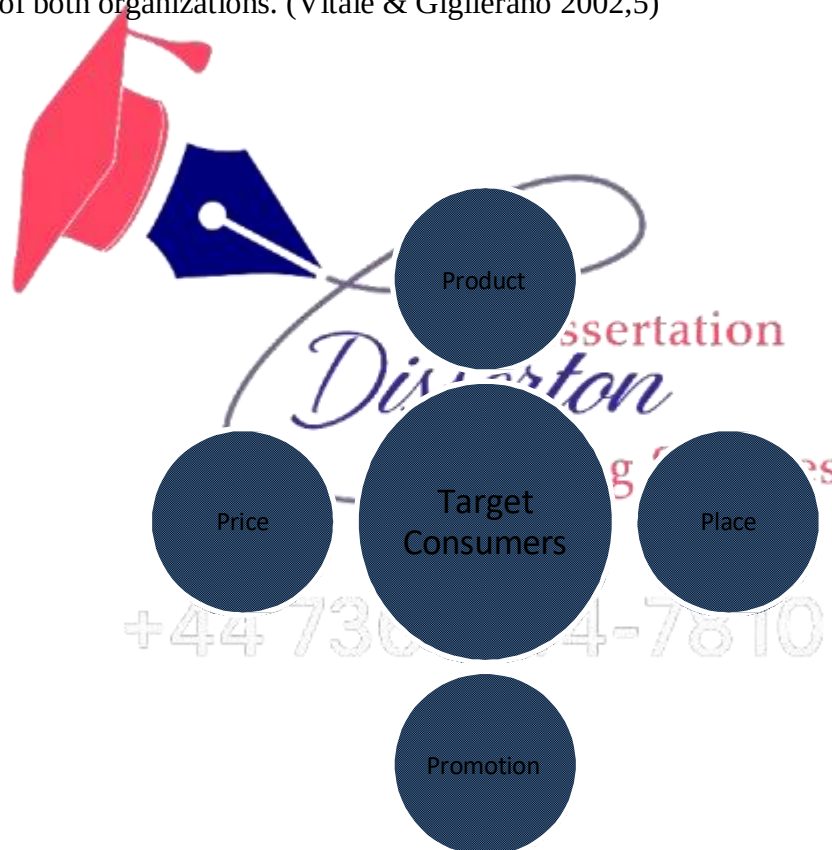


Figure 5-4Ps of Marketing

Pepsi and Coca Cola can also use business to business marketing strategies. In a B2B marketing the tools to build brands are same however they place emphasis on “personal

selling, direct marketing, public, public relationship, trade show and exhibitions, advertising, sales promotion”. (Kotler & Pfoertsch 2006.p. 110)

In china the market is complex and there are different needs of consumers. People like drinks that are close to their taste and culture. Future cola has been able to become successful as local brand because it provided quality and taste Chinese like. Further the company set low prices keeping in view the low income rations in rural areas and thus was able to occupy rural market. Pepsi and Coca Cola can follow Future Cola to respond to this emerging brand. Also these brands need to conduct research on consumer trends and marketing segments and must have up to date knowledge on people’s likes and dislikes.

In brief both the international brands need;

1. Develop their products according to the needs of Chinese consumers
2. Set prices that are affordable to majority and competitive
3. Promote it in a way that attract consumers from China



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Q-4 What should Wahaha do to anticipate and respond to the next level of competition?

		Products	
		Existing	New
Market	Existing	Market Penetration The Future Cola sold same to the same customers	Product Development Selling new products to the existing customers
	New	Product Development Selling Existing products to new customers	Diversification Selling new products to new customers

Wahaha has achieved the position of national brand and a strong competitor to key brands in China as well as in the world however it is still behind the established international brands like Pepsi cola and Coca Cola. In order to achieve leading position in China the company needs to take two steps;

Product Development

To stand out in the competition the Wahaha Group should focus on product development as it will attract customers from new markets as well as retain existing customers. As there is strong competition and in such type of competition customers purchase those brands that provide good deals in terms of price, delivery and packaging. So Future Cola needs to take a

step ahead to win this battle. The packages may include a combination of affordable prices, delivery and other packages. By delivering superior value to customer the Future Cola will obtain competitive advantage.

Product Diversification

The next step Future Cola can take is to penetrate into new markets with product diversification. The companies decide for product diversification because growth cannot be achieved under existing markets. Also new market and new product help to reduce risk, gain financial stability, saving cost, control suppliers. There are two types of diversification;

- **Related:** The companies can diversify beyond current products and markets but not leaving the current value system such as vertical integration and concentric expansion
- **Unrelated:** Diversifying into other industries that do not come under its value system

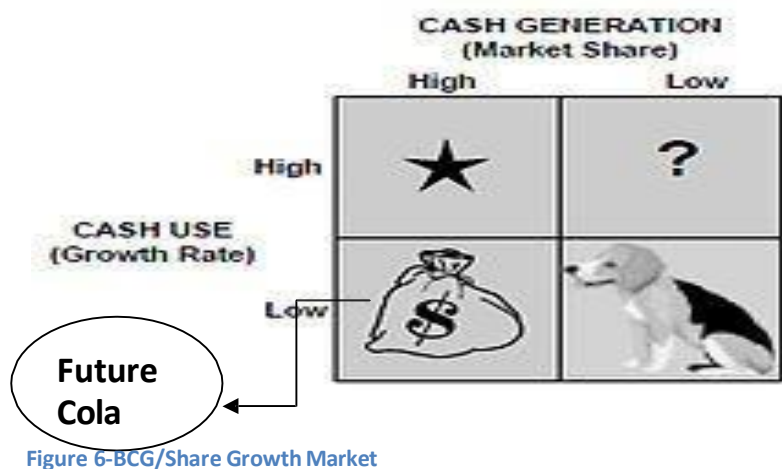
Firms can diversity through; organic development, acquisitions and mergers and through joint developments.

A report from Forbes magazine has revealed that there is rising demand for soft drinks in developing nations. Report further revealed that medium calorie, natural drinks will be popular in future so Future Cola can design and market new products for new consumers.

In order to go for product diversification Future Cola should consider all the above suggestions and trends.

Q-5 what other strategies and tactics could Future Cola employ to continue to grow its market share?

BCG Cash/Growth Matrix



The BCG/Growth was created by Bruce D. Henderson in 1970 for the purpose of helping corporations in analyzing their business units or product lines. Corporations use this matrix as an analytical tool in brand management, brand marketing, strategic management as well as portfolio management. (Henderson, Bruce D, 1970) The matrix divides businesses into four categories according to their growth/market share;

1. **Cash cows** are business units that have high market share in an industry that is growing slowly. Cash cows gain profit because they are able to collect cash more than required for business maintenance. These corporations are referred to as staid and boring
2. **Dogs**, mostly referred to as pets are corporations that have low market share in an industry that is mature and growing slowly. These types of corporations can hardly generate cash enough for maintaining business's market share.
3. **Question marks** Represented in the chart as problem children, question marks are corporations that operate in high market growth, but have low market share. The businesses that are at starting point come into this category. Question Marks are

capable of gaining more market share and becoming stars eventually turning into cash cows in case market growth slows.

4. **Stars** represent corporations that have high market share in an industry growing quickly. Stars are successful question marks which turn into market leaders in an industry highly growing. Stars hold the potential to become next cash cows.

Before giving recommendation it is analyze the business through BCG/Growth Share Matrix.

Using BCG Matrix if we see Wahaha Future Cola is a question mark that means brand has high market growth but low market share.

The future trends of soft drinks include as follows;

Target Developing Nations

- People from developing countries are now like packed drinks rather than unpacked drinks as compared to past.

Focus on Local Tastes

- People are more interested in buying local brands and familiar flavours
- more tendency toward local tastes, for example lemonade

Target Consumer Lifestyle

- From marketing point of view the consumers lifestyles are being focussed for example previously consumers were anxious about the function of the drink like its health advantages while now manufacture target consumer lifestyles, by replying to the question “what does this beverage say about me”.

Gender and Culture

- Though majority of the soft drink consumers still demand big brands like Coca Cola and Pepsi, however, the companies that target specific groups of consumers and prepare drinks accordingly will be successful in future. For example gender-specific

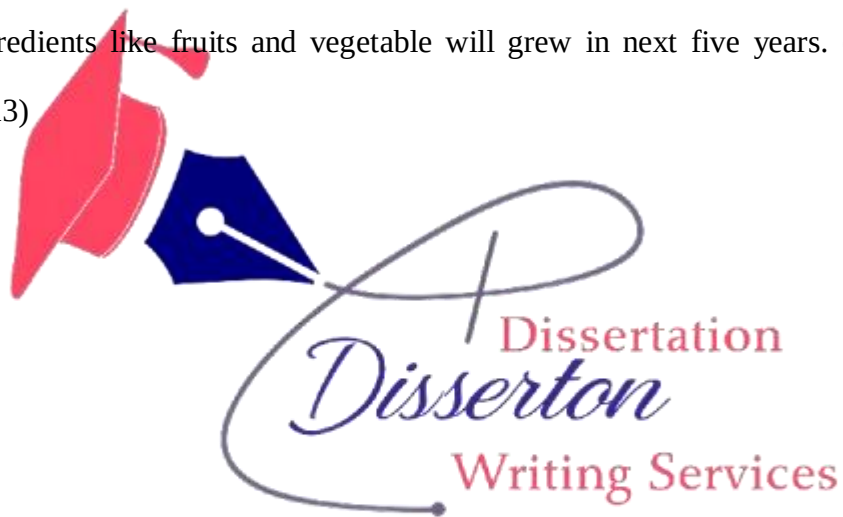
and regional specific as well as drinks reflecting a specific popular culture and lifestyle are seeking more distribution.

Medium Calorie Drinks are inn

- Though the sports and energy drinks have been most popular and gained huge profits however people are mostly calorie conscious. To fulfil this demand low calorie sodas emerged but were unable to satisfy consumer needs so, now there is trend of medium calorie drinks that consider both health and taste

Drinks with Natural Ingredients

- Though previously not preferred much, there are predictions that drinks with natural ingredients like fruits and vegetable will grow in next five years. (Jonas Feliciano, 2013)



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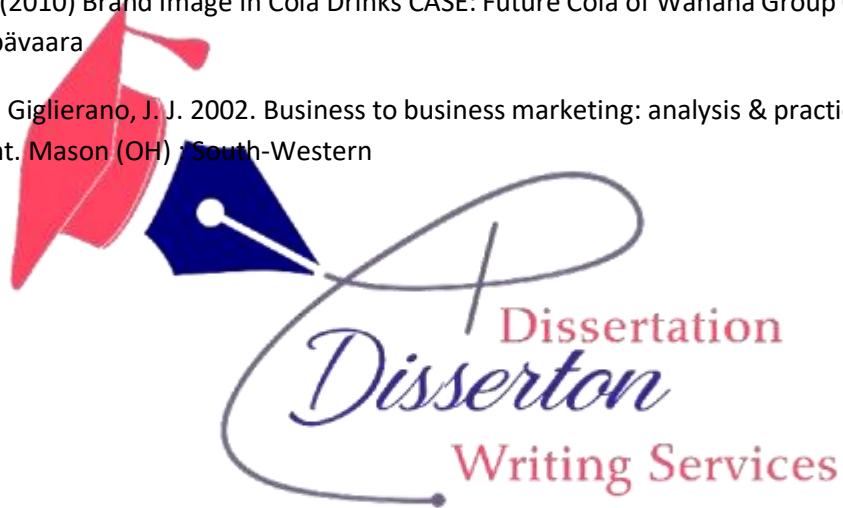
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