SENEM ACET COSKUN

BUS 9200 - FALL 2008

Pepsi Cola's International Expansion

I. Executive Summary

Pepsi-Cola considered international expansion as a way to strengthen its competitive position against long-term rival Coca-Cola. It was also good market opportunity for Pepsi-Cola especially in developing countries where disposable income is increasing and the lifestyle of young people is changing. After its first initiatives of exporting packaged bottles to Canada, Pepsi-Cola opened its own bottling and distribution operation in that country as its first direct foreign investment. Even though the cards were in favor of international expansion, domestic growth opportunities and lack of adequate capital to finance foreign operations had kept the firm from going international. And when it was able to do so, the battlefield was already conquered by Coca-Cola.

II. Critical Issues

**Scarcity in Resource/Skill in International Locations*

When decided to go international, Pepsi-Cola faced competition in both input and output parts of the overall operation. As for the input part, it needed to access to efficient and proper manufacturing and distribution resources in several international locations in order to maintain comparable advantage against its rivals and also to control costs. However, bottling and distribution capacity in each region was limited and the company who closed a deal through long term franchising arrangements had a competitive advantage over others. Pepsi was weak in this part due to its late arrival into international platform.

**International Market Opportunities (Developing Countries/Economies)*

While developed countries with higher disposable income and higher young population are the main market for carbonated soft drinks (CSD), developing countries were also rapidly catching up for being a market opportunity. Since the demand for CSD in economically developed regions was reaching saturation levels and the disposable income of people in developing countries was rapidly rising, those countries were promising better opportunities for international expansion. As for Pepsi case, this was also an opportunity to land into these markets before Coke does and close long term deals for bottling and distribution parts of the operations. However, another point to be taken into consideration was the brand recognition, in which the Coke was a leader again.

III. Strategy for success

For a successful international expansion, Pepsi needed to have a global strategy to control costs and to create a global brand. Since the product was highly standardized, there were no need to consider local differences and this was an advantage to decrease the costs. Location is one of the critical issues for success. Pepsi needs to access bottling and distribution facilities in developing countries. On the other hand, the best way to have control over the manufacturing of the product and its marketing should be engaging joint or sole ventures when possible. Pepsi should make direct foreign investment for the input part of the process.

Another important factor for success is the integration of processing activities. Pepsi needs a strong central control system to manage these highly complex international operations for both cost control and process efficiency.