MONOPOLISTIC COMPETITION: EFFECTS OF MARKETING STRATEGIES ON SALES PERFORMANCE OF COCA-COLA AND PEPSI

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Abstract: *Nowadays, Coca-Cola and PepsiCo are the two giants of the U.S. carbonated soft drink market. Both beverages originated in the U.S. in the late 19th century as cures for common ailments. Today they represent huge multibillion-dollar corporations with branches in many different countries around the world. To maintain market share as low-involvement products, these companies lead profound advertisement campaigns focused on promotions, differentiation, and increasing brand loyalty. Both of them produce almost the same product but differentiated by their unique brand identities. Pepsi mainly focuses on the younger generation. Their slogan, "This is what I like" is for people who want to live differently. Also, Pepsi is known for celebrity hype. Singers, sportsmen, and bloggers promote this drink and create loyal customers. In terms of Coca-Cola brand positioning, they are using mostly psychological applications in their marketing campaign. For example, their slogan "Sharing" represents sharing happiness with friends or family, and by "happiness" they mean the bottle of Coca-Cola. These marketing strategies allow them to compete not on price but on the image of their company, which allows them to grow the market share without creating a price war. This research is aimed to analyze the effects of advertising on market share, sales revenue, advertisement expenditure and operating income of Coca-Cola and PepsiCo.*

Key words: *Monopolistic competition, advertisement impact, brand awareness, Coca-Cola, Pepsi.*

Literature review

To make a favorable decision at the point of purchase, brand awareness and loyalty are key in decision-making as Coca-Cola and PepsiCo refer to low involvement products. Therefore, various marketing techniques are applied by these brands such as social media campaigns, advertisement on TV, bundling offers, in-store and seasonal promotions. The competition for the market share between Coca-Cola and PepsiCo further increases the importance of marketing. As well as over the last two decades a per capita consumption of soft drinks in the United States shows a downward-looking trend (Figure 1.1). A decreasing demand once again represents the urge of advertisement.

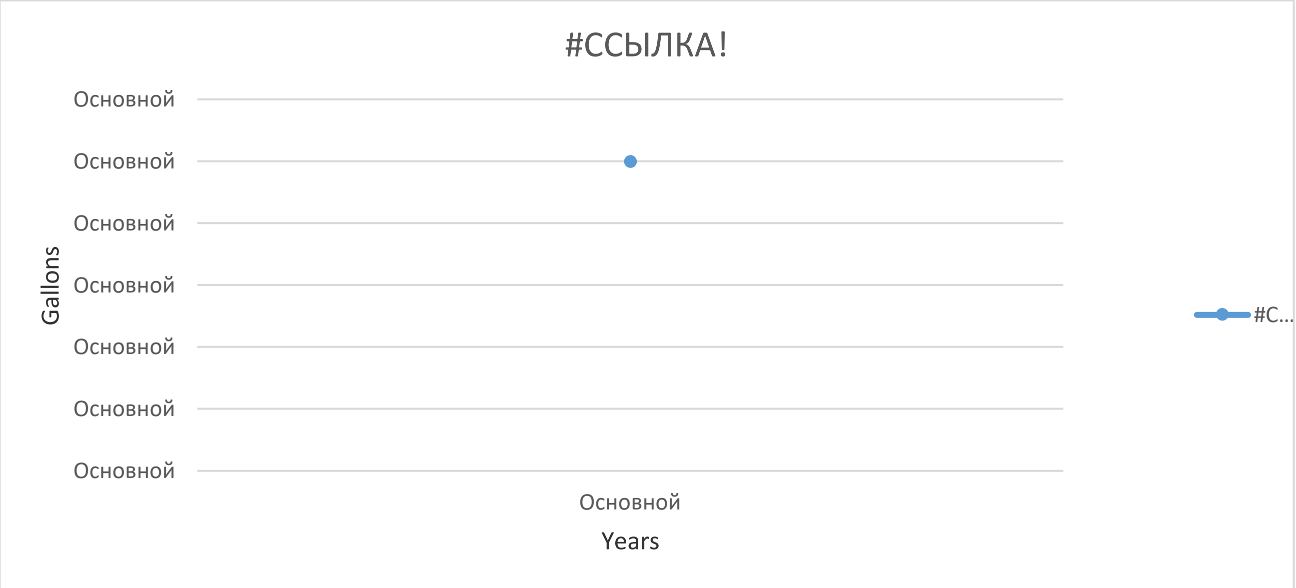

Figure 1.1

The findings of Chi et al. (2009) highlight the primary importance of the positive relationship of brand awareness and buying intention. In research, conducted by Karungi and Isabirye (2024), consumer preferences were also found to be influenced by the memorability of advertising content and the reliability of information provided in commercials. Consumers were more inclined to trust and interact with advertisements they considered as trustworthy and memorable, indicating that these factors have a significant impact on how consumers perceive products. In addition, from Mohammed, Kalajdzic and Herzog's (2022) research analysis of the relationship between growth of sales and marketing regression analyses, it is clear that market explains 31.2% of variation in sales growth. Their finding shows that an increase of 1 unit in advertisement leads to the 0.754 unit increase in sales while other factors remain constant. Ads can not only promote

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goods but also can change the perception of lifestyle, impact the behavior of consumers and change their preferences (Idowu, 2023). Additionally, this study shows that consumers are not willing to choose products that are not advertised. Specifically, around 80% of the research questionnaire participants confirmed that they are more likely to buy a Coke during advertising campaigns. It shows the relationship between the advertisement and the desire of consumers to buy these goods.

In contrast, it is suggested by Asghar et al. (2015) study that sales promotion proved to have greater effect on induction of consumer cognitive purchasing process compared to brand awareness. In addition, free samples were viewed by many customers as a promotional activity during the initial phase of a brand's launch. However, regular use of free samples could have a detrimental effect on customers' minds. In other words, some consumers may perceive a difference in quality between sample and original products (Babu, 2014).

The literature review provided contrary views on the application of advertisement and its effects on sales. This study aims to analyze marketing strategies adopted by Coca-Cola and Pepsi companies and their effects on sales.

Discussion

To compare the effectiveness of advertisement of Coca-Cola and PepsiCo two regression models were constructed. The data on sales revenue generated by Coca-Cola and PepsiCo beverages as well as advertisement expenditure were collected from annual financial reports of the companies for North America. The regression analysis of Sales Revenue (regressand) and Advertisement Expenditure (regressor) in billion USD over the period of 1993 – 2023 gave the following models:

$$\text{SalesRevenueCoca-Cola} = 0{,}77 + 3{,}19 * \text{AdvertisementExp} + \varepsilon$$

$$\text{SalesRevenuePepsiCo} = -5.23 + 9.04 * \text{AdvertisementExp} + \varepsilon$$

The given models indicate that PepsiCo has more efficient advertisement compared to Coca-Cola;

β_1 PepsiCo > β_1 Coca-Cola

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The marginal effect of advertisement of PepsiCo is much higher than that of Coca-Cola. Thus, 1 unit advertisement expenditure made by Pepsi increases sales revenue of the company by 9.04 units ceteris paribus, whereas, in Coca-Cola company 1 unit advertisement expenditure increases sales revenue on average by only 3.19 units. However, from the obtained regression model of Pepsi it is seen that sales revenue of PepsiCo is negative when none advertisement expenditure is made.

Variables	Coca-Cola	PepsiCo
Regressor (Advertisement Exp)	3,19** (coef)	9,04** (coef)
	0,33 (std error)	1,55 (std error)
R squared	0,77	0,54
F stat	95,41	33,97
N	31	31

* - $p < 0,05$

** - $p < 0,01$

Table 3.1

Due to the disruption of marketing channels, Coca-Cola faced difficulties in promoting its products. The cancellation of events and sponsorships led to reduced brand exposure. As a result, the advertising expenditures of the company decreased from $4.2 billion to $2.7 billion in 2020 (Figure 3.1). However, in an unexpected move, the company launched one of its most emotional advertisement in November 2020. “The Letter” marketing strategy contributed to increasing the revenue of the company during the pandemic by highlighting togetherness and the importance of connection during difficult times. This emotional appeal helped strengthen brand loyalty and encouraged consumers to choose Coca-Cola products as a part of their holiday celebrations (Galvano, Crescimone, 2022). By the end of 2021, the company experienced a growth in its sales revenue by $1,08 billion (Figure 3.2). Thus, “The letter” marketing strategy effectively navigated the complexities of the pandemic, allowing the company to foster a strong emotional connection with consumers, enhance brand loyalty, and facilitate revenue growth despite the initial decline.

Figure (3.1)

Figure (3.2)

According to the graph, there is a positive relationship between advertisement spending and the total sales of Pepsi. It shows an increase in sales due to advertisement spending started to increase at a rapid pace from 2017, prompting the company to invest more money in e-commerce. (Indra, K., 2018) The increase in advertising expenditure from 2.4 million to 2.6 million has resulted in an increase in sales by 1 billion in 2018 alone (Figure 3.3) COVID-19 was the first pandemic that affected the entire industry worldwide. Looking at the beverage industry, we can find that Coca-Cola and PepsiCo suffered losses during the lockdown due to the epidemic that led to delays in export of raw materials, such as sucralose, a zero-calorie sweetener widely used in production (Gao et al., 2022). While Pepsi's advertisement spending remained steady at $3 billion during COVID, those of Coke's was lower at $2.8 billion which in turns resulted in decrease of sales revenue. For the first time in a while, Coke's advertising expenses were lower than Pepsi's (Clapp, R, 2020). By the end of 2020, the increase of advertisement spending by $500 million resulted in a sharp increase in sales. This is because Pepsi, like Coke, has developed a new advertising system by filming advertisements with celebrities. The advert featuring Lionel Messi, Pogba, Salah, and Sterling, with energetic music, laughter, and football playing, caused a storm of emotions not only among football fans but also among the majority of people who watched the commercials. (Muhammad, M., Masoom, R. and Muktadir, M 2021). In 2020, the total sales of Pepsi increased by about 3 billion attaining 25 billion in 2021. Therefore, advertisement campaigns that include celebrities not only influence product choice but also help to memorize it better.

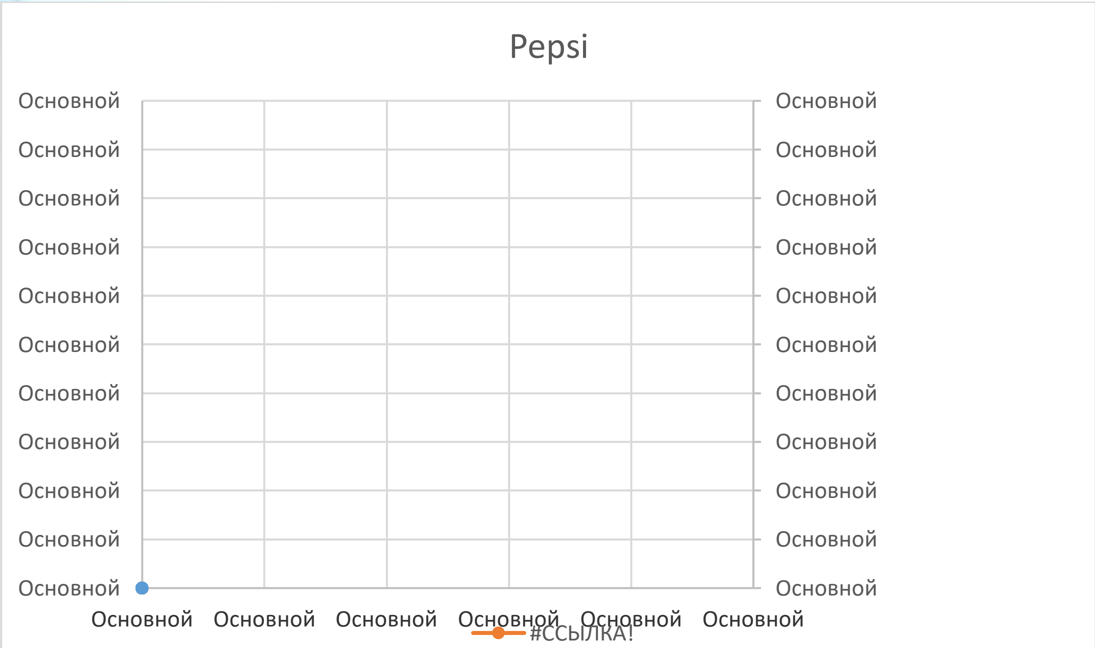

Figure 3.3

The Decision matrix (Table 3.2) was calculated to provide a better understanding of impact of advertisement of Coca-Cola and Pepsi. Simple regression models were constructed to measure the effect of advertisement (See Appendix 1). As can be seen from Decision matrix, the dominant strategy for both companies is to advertise, this way both Coca-Cola and Pepsi maximize their sales revenue.

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	Coca-Cola: Advertise	Coca-Cola: Not Advertise
Pepsi: Advertise	18,4 5,1	22,8 3,76
Pepsi: Not Advertise	5,35 14	7,5 8,2

Table 3.2

Conclusion

After analyzing the market and advertising strategies of two influential companies, we came to the following conclusion: Marketing strategy is one of the key factors affecting sales changes in the beverage industry. The data found on advertising costs and sales showed that these two variables are very closely related to each other and have a positive relationship. The pandemic had a significant impact not only on sales but also on advertising. This led the company to creating a new advertising strategy that helped sales grow rapidly after the lockdown. Moreover, the Decision matrix showed not only how sales change under the influence of advertising, but also how advertising of one company affects the sales of another company. The collected data and tables showed that if Coke has no advertising and Pepsi has advertising, Pepsi's sales will increase 2 times compared to when both companies have advertising. However, the dominant strategy for both companies is to advertise, which leads to an increase in sales.

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APPENDIX:

APPENDIX 1

Pepsi: Sales = 7.5 + 4.5 *(2.9) - 0.53*(4.05) = 18.4 Advertised
Coke: Sales = 8.2 + 0.33 * (4.05) - 1.5*(2,9) = 5.1 Advertised

Pepsi: Sales = 5.35 Not Advertised
Coke: Sales = 10.3 + 0.9 * (4.05) = 14 Advertised

Pepsi: Sales = 8.9 + 4.8 * (2.9) =22.8 Advertised
Coke: Sales = 3,76 Not Advertised

Pepsi: Sales = 7.5 Not Advertised
Coke: Sales = 8.2 Not Advertised