

## Battle of the colas

Level 3 | Advanced

### 1 Key words

Fill the gaps using these key words from the text:

fizzy                  complacent                  obesity                  auction                  stagnant  
lukewarm          frank                          leverage                  fad                          wane

1. If you give someone a \_\_\_\_\_ answer to a question, it is honest and direct.
2. A \_\_\_\_\_ is something that is popular or fashionable for only a short time.
3. If you are \_\_\_\_\_ you are too confident and relaxed because you think you can deal with something easily, even though this may not be true.
4. \_\_\_\_\_ is a condition in which someone is too fat in a way that is dangerous for their health.
5. A \_\_\_\_\_ drink has gas bubbles in it.
6. When something \_\_\_\_\_ it becomes smaller, weaker or less important.
7. An \_\_\_\_\_ is a public sale when things are sold to the person who offers the most money for them.
8. \_\_\_\_\_ means not hot or cold enough to be enjoyable.
9. \_\_\_\_\_ means the power to make someone do what you want.
10. If something is \_\_\_\_\_ it is not growing or developing.

### 2 What do you know?

1. Which company is currently more valuable – Pepsi or Coca Cola?
2. What are Pepsi and Coca Cola made of?
3. Which of the two companies produces Tropicana fruit juices?
4. Which of the two companies produces Gatorade sports drinks?
5. What is Aquafina?
6. Which company has a bigger share of the sports drink market in the US – Pepsi or Coca Cola?

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The fizzy drink of choice at PepsiCo on December 12 was more likely to have been champagne than cola. By the end of trading on Wall Street that day, the company's market capitalisation reached \$98.4bn - while the market valued rival Coca-Cola at \$97.9bn. For the first time in the history of the two companies, PepsiCo was valued more highly than its old arch enemy. It was chiefly a symbolic shift, but what a symbol - and one that persisted over ensuing days. The "real thing" is suddenly second-best.

The battle for supremacy between Coca-Cola and PepsiCo is one of the great rivalries in business. The two firms remain the number one case study for marketing students on how to create a powerful brand around something as humble as brown carbonated water laced with caffeine and vegetable extracts. More recently they have become case studies for another reason: PepsiCo for its ability to spot consumer trends and adapt its business to a changing climate; Coca-Cola for failing to do the same, perhaps complacent due to its long history as the number one best-selling drink in the world.

In early 2000 Coca-Cola's market capitalisation was about \$128bn, almost three times that of PepsiCo, which was valued at \$44bn. Fizzy drinks sales at both companies are flat in developed markets. The crucial factor in the differing fortunes of the two has been PepsiCo's diversification away from sugary carbonated drinks and the realisation that consumers were worrying more and more about obesity and health.

In 1998 the company acquired the fruit juice business Tropicana. Three years later it won an auction for Quaker Oats, paying \$14bn and adding the energy drink Gatorade to its portfolio. Coca-Cola pulled out of the bidding after its independent directors expressed concerns about the high price. That proved a poor decision. Today PepsiCo has about 81% of the fast-growing sports drink market in the US. It has the number one fruit juice brand in Tropicana and the leading bottled water brand in the US, Aquafina. In the most recent quarter sales of PepsiCo's non-carbonated drinks grew by 24%.

PepsiCo generates about 23% of its worldwide profits from the near-stagnant carbonated drinks sector while Coca-Cola relies on its fizzy drinks for 85% of profits. PepsiCo owns snack foods including Walkers Crisps and Doritos, and its diverse range of products, analysts note, is helping it to gain leverage with supermarket chains.

Coca-Cola is playing catch-up. In June it launched its Minute Maid pure juice range in Britain. It has also introduced the Dasani bottled water brand and the Powerade energy drink. Powerade is about one-fifth as big as Gatorade in the US. When Coca-Cola did eventually launch its bottled water brand in Britain, it met first with derision when the press realised it was distilled tap water and

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then horror as it was pulled from shelves in a health scare.

PepsiCo shares have risen 14% the past year while Coca-Cola's fell 1.2%. Coca-Cola's problems appear to have begun with the death in 1997 of the highly regarded chief executive Roberto Goizueta. The company subsequently suffered from under-investment, heavy job cuts and management upheaval. In May 2004 the company hired its third chief executive since Mr Goizueta's death, persuading the Irishman Neville Isdell to come out of retirement. Mr Isdell's appointment received a lukewarm reception on Wall Street. At 60 and a company veteran, he was not seen as the new blood or the agent for change that Coca-Cola needed.

Shortly after he joined, Mr Isdell was frank about Coca-Cola's mistakes. He sharply reduced the company's long-term profit and sales targets, and admitted there were "no quick fixes". The company, he said, had missed consumer trends and under-performed since 1997. There had been an absence of "brand-building iconic advertising". He promised an additional \$400m for marketing and promised to address emerging markets such as China and India more energetically. The company has committed more funds to product innovation. He has since shaken up management, including the departure of marketing and retail chiefs, and got rid of poorly performing brands including a vanilla variant of Coke and lemon and lime versions of Diet Coke. The most spectacular disaster was the launch of C2, a low carbohydrate version of Coke, which came on the market as the fad for low-carb diets was beginning to wane.

Mr Isdell appears to have made some progress and analysts have begun to express a cautious optimism. The company has posted improving profits over the past four quarters. Third-quarter earnings were up 37% to \$1.28bn, chiefly on the back of double-digit volume growth in developing markets such as China, Russia and Latin America. PepsiCo meanwhile continues to press home its advantage. The company says it is focusing its research and development efforts on healthier products including Tropicana fruit bars and a carbonated version of the brand.

### 3 Comprehension check

Choose the answer that best reflects the sense of the text:

1. **Coca Cola has been overtaken by Pepsi because**
  - a. Pepsi has a new chief executive
  - b. Pepsi has diversified its product range
  - c. Pepsi has had a large growth in sales in China, Russia and Latin

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2. The fizzy drinks market is
  - a. booming
  - b. declining
  - c. not moving much
  
3. Coca Cola makes most of its profits from
  - a. fruit juices
  - b. bottled water
  - c. fizzy drinks
  
4. Dasani was withdrawn from the market because
  - a. there was a health scare
  - b. it was distilled tap water
  - c. the press criticised it
  
5. Coca Cola has begun to recover because of
  - a. optimism on Wall Street
  - b. new products
  - c. growth in developing markets

## 4 Vocabulary 1: Collocations

Match the verbs in the left-hand column with the nouns in the right-hand column:

- |             |                     |
|-------------|---------------------|
| 1. acquire  | a. funds            |
| 2. express  | b. a new product    |
| 3. launch   | c. targets          |
| 4. make     | d. a business       |
| 5. generate | e. leverage         |
| 6. commit   | f. profits          |
| 7. reduce   | g. progress         |
| 8. gain     | h. concern/optimism |

## 5 Vocabulary 2: Chunks

Find the phrases in the text that mean the following:

1. a fight to become more powerful than a rival
2. biggest or worst enemy

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3. the most important element or reason
4. large numbers of redundancies
5. trying to make as much progress as a rival or competitor
6. easily recognised advertising that brings a large rise in sales of a product

### 6 Vocabulary 3

Which of these expressions from the text are used to describe Pepsi and which are used to describe Coca Cola?

1. poorly performing
2. adapting its business to a changing climate
3. relying on fizzy drinks for 85% of its profits
4. suffered from under-investment
5. committing more funds to product innovation
6. focussing its research and development efforts on healthier products

### 7 Discussion

Which company has a higher profile in your country? Why? What do you think each company should do to improve its position?