

Porter's Five Forces: Coca-Cola Amatil

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Abstract

This report focuses on the competitive position of Coca-Cola Amatil in the Australian soft drink market. By using Porter's (1980) Five Forces as a model to evaluate the success of Coca-Cola Amatil, this report will analyse the success and shortcomings of its business. In terms of the power of suppliers, the power of buyers, and the threat of substitutes, Coca-Cola Amatil has managed to seize some opportunities and overcome some challenges, but there still exist problems such as the negative impact of packaging. It is recommended that Coca-Cola should satisfy buyers' pluralism demand, build a strong relationship with suppliers and establish R&D and production base.

Keywords

Porter's Five Forces; COVID-19 Pandemic; Competitive Advantage.

1. Introduction

Coca-Cola Amatil is a beverage giant which operates 33 production facilities and 43 warehouses in Australia, the Pacific, and Indonesia (MarketLine, 2021). In this current economic climate influenced by complex situations, especially the COVID-19 pandemic, the soft drink market in Australia offers both challenges and opportunities to Coca-Cola Amatil. This company has taken a range of measures in 2021 to cope with such change. Some of them are worthy of recognition, but there still exists room to improve.

Porter's (1980) Five Forces is a powerful tool that is widely applied to identify the main sources of competition in a company, a Non-governmental Organisation, and an industry. In this model, the five forces that contribute to and influence the industry competition are: the threat of entry, the power of suppliers, the power of buyers, the threat of substitutes, and rivalry among existing competitors (Porter, 1980). As strategists, the position of a healthy industry structure in their companies is of equal importance to that of a competitive concern (Porter, 1980).

This report will introduce the situation of Coca-Cola Amatil in Australia and analyse its marketing position based on Porter's Five Forces. In particular, the power of suppliers, the power of buyers, and the threat of substitutes will be applied to evaluate how Coca-Cola has managed the applicable forces. According to the analysis, recommendations about the improvement of its competitive advantage will be made.

2. Porter's Five Forces

Porter's (1980) Five Force Model is widely applied to identify the main sources of competition in a company, and the five forces that should be considered are customers, suppliers, rivals, potential entrants, and substitute products. Porter (1980) claims that it is essential for a company and its decision-makers to understand these competitive forces and the causes behind them, which assists to reveal a company's current profitability and provide a framework for anticipating competition and adjusting strategies.

2.1. The Power of Buyers

As described by Porter (1980), buyers can request price reduction, seek better quality or service, or choose their industry counterpart to capture more value. Companies are profit-making organisations, thus buyers purchase more products, and they have stronger negotiating leverage. If this company produces standardised or unnecessary products, buyers can simply stop their buying or easily purchase substitutes because there are few switching costs in this change. Budzik and Budzik (2019) mention the degree of concentration of customers, or brand loyalty in the perspective of buyers also matters.

2.2. The Power of Suppliers

Suppliers can mainly use strategies of deciding on high prices, limiting quality or services, or cooperating with other industry participants to capture more value (Porter, 1980). A company's normal operations are inseparable from suppliers. They provide raw materials, intermediate goods, fundamental machinery and equipment, and other necessary services. Therefore, suppliers are powerful when a company depends heavily on them, or switching to other supplies is costly. Many factors of suppliers are similar to buyers, except one, the supplier's monopolistic position (Budzik & Budzik, 2019). A simple example is the monopolised energy industry in some countries.

2.3. The Threat of Substitutes

Porter (1980) points out an industry's product has many different forms, manufacturers, or brands, and they are mutual substitutes. A company confronts the threat of substitutes from two sides. On the one hand, consumers can purchase other companies' similar or undifferentiated products. On the other hand, the threat of substitutes also comes from replaceable functions or experience. For example, puffed food could be a substitute for the confectionery business.

3. Analysis

In this section, the success of Coca-Cola Amatil will be evaluated with reference to Porter's (1980) Five Forces. Coca-Cola Amatil Limited is committed to manufacturing and selling ready-to-drink alcohol, non-alcohol beverages, and coffee (MarketLine, 2021). This report will focus on the soft drink market, and mainly analyses the power of suppliers, the power of buyers, and the threat of substitutes.

3.1. Coca-Cola and the Power of Buyers

In Australia, buyers play an important role in Coca-Cola because they have gained significant bargaining power. The Australian soft drink market has become comparatively mature, which means that the production of soft drinks becomes increasingly standardised, and the quantity of new entrants has increased. Especially in the COVID-19 pandemic, buyers have changed their habits to purchasing in bulk, and storing up during lockdown (Wehring, 2020). Soft drinks may have become unnecessary for many families, and some families loving Coca-Cola have had to reduce the frequency of purchase. Consequently, buyers have the bargaining power to request price reduction and seek better quality (Porter, 1980).

In a sense, soft drinks can not simply target relieving thirst, and consumers' pluralism demand must be satisfied. In response, Coca-Cola Amatil has taken corresponding measures, such as building its E-commerce and food delivery aggregators platforms, for easy shopping (Wehring, 2020). To meet consumers' pluralism demand, Coca-Cola Amatil has offered a wider choice and greater promotion. For example, Coca-Cola Zero Sugar is famous in Australia (<https://www.cocacolaep.com/about-us/products/>).

3.2. Coca-Cola and the Power of Suppliers

The power of suppliers can be considered in three aspects. First, suppliers can decide on higher prices (Porter, 1980). Coca-Cola Amatil itself is the manufacturer, and its suppliers contain raw materials and packing like glass, aluminium, and plastic. In fact, Coca-Cola Amatil does not depend heavily on them, and it can easily switch to other supplies if these suppliers decide on high prices.

Second, suppliers can limit quality or services to gain power (Porter, 1980). Suppliers' monopolistic position means that a company has no choices or alternatives but to cooperate with them (Budzik & Budzik, 2019), but it is obvious that suppliers of Coca-Cola do not have such a position. However, with the criticism of the impact of Coca-Cola packaging increasing, Coca-Cola Amatil has extended cooperation to industry, government, and NGOs to accelerate innovation about packaging (<https://www.cocacolaep.com/sustainability/this-is-forward/forward-on-packaging/>). This means some packing suppliers who grasp advanced environmental technologies may have such power.

Third, a supplier group is powerful while cooperating with other industry participants (Porter, 1980), and it is vital in some developing countries or areas. Australia has an advanced transportation system and comprehensive collaborators at home and abroad, so there are still many choices for Coca-Cola with a small price to pay.

3.3. Coca-Cola and the Threat of Substitutes

Coca-Cola Amatil mainly has two competitors in Australia: Pepsi and Asahi Group, and both of them manufacture and sell substitutes for Coca-Cola. Even though Pepsi accounts for 7.2% of the market value in 2019, Asahi Group accounts for 10.8%, both are way less than Coca-Cola which accounts for 31.9% (MarketLine, 2021). Except for Pepsi and Asahi Group, there still exist many other companies with relatively low brand recognition, and they account for nearly half of the soft drink market value. In other words, the substitutes still occupy the remaining 68.1% market share because it is not a high-tech industry and the height of entry barriers is low. Coca-Cola Amatil is worthy of an uncrowned king in carbonated drinks, which leads to its rivals emphasising more on packaged water, energy drinks, and sports drinks. Therefore, Coca-Cola Amatil has launched new products like Monster Energy, Coca-Cola Energy, and Smartwater (<https://www.cocacolaep.com/about-us/products/>).

As mentioned above, a company confronts the threat of substitutes from two sides, and the threat of substitutes also comes from replaceable other products in the drinks sector. Just like social entrepreneurs and micro-loan providers are substitute products in NGOs (Schwenger et al., 2014), non-ready-to-drink hot drinks and alcoholic beverages are also major threats of substitutes. In response to the crisis, Coca-Cola has acquired other brands like Tropicana and developed its ready-to-drink products like Fuzetea, but it has not ventured into the whole elements of this sector (<https://www.cocacolaep.com/about-us/products/>).

4. Conclusion

To sum up, Coca-Cola Amatil has scored great achievements in the Australian soft drink market. In order to maximise such success, the following recommendations should be considered. Firstly, Coca-Cola needs to cultivate consumers' brand loyalty and satisfy their pluralism demand with diverse and creative products. Marketing and advertising also matter. Next, it is essential for Coca-Cola to build a strong relationship with suppliers who grasp advanced environmental technologies. Additionally, if Coca-Cola is constrained by carbonated drinks, it will lose a large quantity of soft drink market share. Therefore, the research & development and production base should be established for other types of soft drinks.

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