

# Reverse Consumer Preference from Global Brands to Local Brands in the Soft Drink Industry

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## Abstract

India as a nation is still being exposed to global brands in the soft drinks industry though multinational players have had a good hold on the market for the past two decades. While Indian consumers are still experiencing benefits of globalization in the last few years, a new trend has emerged where these consumers are showing reverse preference to local brands as well. Reverse consumer preference does not imply rejection of global brands or acceptance of local brands alone. However, this does imply that there is a new love or loyalty being displayed towards a local brand. This phenomenon is being supported by the fact that local players are reporting higher growth rates compared to global giants in the soft drink market. Strong affinity that a consumer displays towards the culturally rooted flavors is not affected by exposure to wide array of global brands or inducement through promotion.

That local brands are getting more attention could be on the account of two factors. Either local brands with global flavors are coming up displacing global brands or the preference of people towards local flavors are being capitalized upon by local suppliers which global players are unable to match. The implications of such a distinction are important. If the former is true, what is at play is some form of reverse engineering on the product that local players are able to undertake outwitting the global player. If the latter is true it is an indication that global players are providing some form of demonstration effects to the local counterparts in distribution, promotion etc. but with different flavors altogether. What this would mean is that in the former case there is brand substitution whereas in the latter case there is flavor substitution. Both these phenomena could also be occurring simultaneously.

**Keywords:** Culturally Rooted Flavors, Global Brands, Local Brands, Reverse Consumer Preference

## 1. Introduction

Customer preferences are more complex and important to retailers today than ever before. Identifying the factors that affect consumer preference towards non alcoholic beverages is essential in view of the changing perception of the consumer towards soft drinks. This study is an attempt to understand consumer preferences and factors that cause the shift in consumer preferences. The global soft drink industry that enjoyed a glorious

era is now under threat as it faces new competition. Just when the “Big 2” (i.e. Coca-Cola and Pepsi-Cola) felt that they owned the market with some tiny, almost ignorable companies in the sideline, a lot of these tiny players did their homework, learnt from the examples led by the “Big 2” on how to replicate their models with local expertise that they developed and created two models. One by creating duplicates of the global flavors and the other by replicating the model but with flavors that they are well aware of and are more local in nature.

A developing nation like India is exposed to globalization in full throttle for the last three decades. Hence Indian consumers are inevitably adopting a lot from the global culture. It could be the preference for spoken language English, non-traditional apparels, different genre of music, exercise routines, lifestyle changes, cuisines from all over the world being tailored into Indian tables, and even beverages. Euromonitor International a trusted name in offering reliable statistics said in their latest report “The soft drinks industry faces multiple headwinds in 2016. Key emerging markets will continue to struggle, while health concerns are growing-and shifting. Traditional low-calorie options may not be enough to carbonates; consumers are increasingly skeptical of added ingredients, particularly artificial sweeteners,” says Head of Soft Drinks and Hot Drinks Research, Michael Schaefer. Reduced-sugar carbonates underperformed regular, full-calorie carbonates in both North America and Asia Pacific. A large-scale shift to lighter, often naturally less-sweet beverages-bottled water above all-will continue to drive innovation globally.

In the last decade the market share of the global giants saw a steady decline. While the weather is in the favor of beverage companies (rising temperature), the global giants are struggling year on year with the growth numbers. This happening is peculiar to the otherwise rising demand for global products<sup>1</sup> Experts<sup>2</sup> imply that preference for products comes naturally to a consumer when he is presented with various options for a product that he needs. The other important factor examined through this study is if consumers display a different behavior in terms of choice of their beverages while they are in company of others, in public view or socializing versus carefree individual/lone

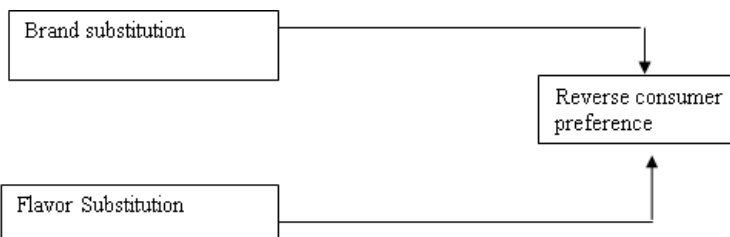
time i.e. choose a drink of their true choice without thinking of implications of observability.

Consumers change the preferences to the products and services several times during their lifetime<sup>3</sup>. The change in consumer preference is also called as preference reversal<sup>4</sup>. Subsequently, this is being used by the consumer researchers as this explains the psychological process involved in decision making<sup>5-7</sup>. The understanding of preference reversals provides a guideline to decision makers to develop strategies to promote their products/services<sup>8</sup>. In the recent past many industry analysts have observed the reversal of consumer preference in soft drinks industry. For instance, research finds that the Japanese consumers prefer the local flavors to the global cola-based varieties. Similarly, the Indian consumers shifting their preference from global brands and flavors to regional brands and flavors<sup>10,11</sup>. The similar shift is taking place in the US too as health conscious consumers preferring the local soft drinks to global soft drinks<sup>12</sup>.

Prior studies have examined the factors influencing the changes in consumer preference in various geographies and products. The factors such as product quality<sup>7</sup>, comparison effect<sup>8</sup>, willingness to pay<sup>5</sup>, product attributes<sup>13,14</sup>, customers personal attributes<sup>15</sup>, brand substitution<sup>16</sup> and so on. However, the studies mentioned above are in the context of products other than soft drinks. In this study, we examine the factors contributing to the change in consumer preference in the soft drinks industry.

## 2. Theoretical Framework

Brand substitution and flavor substitution are important phenomena to be studied in the context of our enquiry into reverse consumer preference.



**Figure 1.** Reverse consumer preference model.

It will be a matter of interest to both global as well as local players to find out which of these are occurring. For instance, if brand substitution is a more dominant occurrence then perhaps the global brands have to study local brands with global flavors more carefully to find out the reasons for lackluster performance of global brands. In case flavor substitution is a more dominant phenomenon this may be a cue for global brands to seek out to more local flavors in their portfolio. In this study we attempt to understand the consumers in figuring out which of the phenomena is at play.

### 3. Brand Substitution

Brand substitution happens when a consumer of a global flavor like Cola shifts from Coca-Cola or Pepsi-Cola to a local cola flavor such as Paper boat, Bindu, Mada or Joy. A similar phenomenon could happen to Orange (Fanta, Mirinda) and clear Lime (Sprite, Seven up, Mountain Dew) as well. The following table shows three dominant flavors in soft drinks covered by two major global brands.

For studying brand substitution - more particularly reverse preference through brand substitution - we have chosen here, for the empirical study, cola to be a representative of the global

flavored soft drink population. For the sake of parsimony this was necessary. In any case this can be justified by considering that cola (as contrasted with orange and clear lime) holds more than half of the soft drinks market share provided by global players in India.

### 4. Flavor Substitution

Here as indicated earlier, the local players are capitalizing on offering local flavors in lieu of traditional flavors offered by global majors. The industry's giants have begun relying on new products and non-carbonated beverages for sales growth<sup>17</sup>. For empirical testing, going by the same argument as before, we are considering Cola flavors as a representative for global flavors. The question here is to what extent cola flavors are being displaced by local flavors.

### 5. Review of Literature

There is a limitation on literature found on Reversal of consumer preference, however abundant literature and resources are found on changes in consumer preference and factors that initiate, influence these changes. Research<sup>18</sup> also provides

**Table 1.** Dominant soft drink flavors for brand substitution

	Global Brand		Reverse Preference through Brand substitution. *
Flavor	Coca-cola	Pepsi Cola	
Cola	Coke, Thums Up	Pepsi	Cola flavor by Mada, Joy, Amruth
Orange	Fanta	Mirinda	Beyond the scope of the study
Clear Lime	Sprite,	Seven Up, Mountain Dew	Beyond the scope of the study

\*The local brands mentioned here are from Mangaluru region.

**Table 2.** Dominant soft drink flavors for flavor substitution

	Global Brand		Reverse Preference through flavor substitution. *
Flavor	Coca-cola	Pepsi Cola	
Cola	Coke, Thums Up	Pepsi	This will be empirically determined
Orange	Fanta	Mirinda	Beyond the scope of the study
Clear Lime	Sprite,	Seven Up, Mountain Dew	Beyond the scope of the study

empirical insights regarding the fact that consumers' resistance to the brand name substitution is the main determinant of the transfer of consumers' trust from the old to the new brand. Finally, loyalty transfer heavily relies on trust transfer. Experts<sup>19</sup> opined that the relative contributions of taste and health considerations on consumer liking and purchase intent of cola drink. Eight types of commercial cola drinks were evaluated by 305 adult consumers who responded on food habits. The data suggested that in spite of current concern about reducing dietary fat, health remains secondary to taste in the selection of cola drinks for consumers. Global strategies are being applied by local brands/flavors to tap a new potential market<sup>20</sup>. The industry's players are relying on new products and noncarbonated beverages for sales growth. This trend has been observed over the past twenty years<sup>17</sup>. Experts<sup>21</sup> also suggest that consumers prefer variety amongst hedonic products such as restaurants or music even though all the products and its facets are clear to them. In the paper they discuss how customers sometimes move away from a famous/ favorite option to a lesser favorite/preferred option for the sake of variety. Though this move could give them lesser pleasure than they could experience by choosing the option they know can give them pleasure. Further, research<sup>22</sup> in the field of behavioral economics adapted from works in the field of psychology said preference reversal is when a person prefers to bet on P which has a high probability of winning a small amount of money than bet on \$ which has a small chance of securing big amount of money. However, they place a higher value for the \$ bet than the P bet. One area of research in which the preference reversal phenomenon has evolved as a study of importance is the study of consumer behavior, and, more specifically, consumer choice making. For example, experts<sup>23</sup> in their study had majority of their respondents mentioning food consumption when asked about what memories make them nostalgic, of which nearly half involved food products related to the respondents' childhoods. Thus, the change in preference of a consumer from their previous memories to current status is worth studying to see if a pattern of reversal to culturally rooted

beverages is at place. Furthermore, a study<sup>17</sup> using the conditional effects (moderated-mediation approach) technique found that both male and female young consumers prefer the innovation of drinks to suit local tastes and be produced locally; the drinks should also have health and well-being benefits. Beverage innovators should learn from the local popular infused drinks as the baseline for drinks innovation and should innovate to suit local tastes. In particular, beverage manufacturers should consider satisfying the market segmentations for flavor lovers and health seekers. In the initial stages of globalization, the first generation consumers are likely to be attracted towards the global brands. In fact, research also suggests that when the novelty factor is high the arousal for such product is also high, however due to repeated exposure the novelty fades off and fails to cause arousal. In such cases a drink which is uncommon can cause higher arousal<sup>23</sup>. This is due to higher social acceptance of the consumers of the global brands. Accordingly, it is found that 'foreignness' of any product is likely to make it less preferable to the consumers<sup>24</sup>. Hence, in this research, we attempt to examine the factors that explain the changes in preference that cause a stir in the soft drinks industry.

## 6. Research Design

A random sample of fifty-eight students has been chosen from a population of one hundred and eighty students who belong to the first year MBA class of Justice K. S. Hegde Institute of Management. These students typically represent college going girls and boys. Since this is a pilot survey to validate the questionnaire and to fine tune the logistics for a larger study this attempt has been made with the above-mentioned sample. The respondents represented the age group of 21-23 years. They make a significant contribution to the overall Soft drinks business and are a very diverse group with uniqueness of their own. The respondents form a mix from different regions of Karnataka. They are also very convinced about their choices and have different traits of any product prioritized differently.

This study can also be replicated to other age groups to investigate the possible different outcomes that can appear. Is there a necessity emerging for the Soft Drink Industry to strategize differently for different groups? Standardization of products and flavors by Global players need not necessarily agree with the times ahead. But perhaps discounting the global brand too much will also work in favor of local players who are close to the market and offering the market with as much personalization of flavors that they require sooner than global brands and almost never later than them. Hector beverages CEO Neeraj Kakkhar recently in an interview did record that drinking a Jaljeera drink versus a Cola was being considered “cool” these days. He also went on to say that Global giants would not think of adopting culturally rooted flavors into magnanimous production unless they see opportunity to replicate the same flavors in other emerging markets as well.

## 7. Results and Discussions

The study is limited to non-alcoholic but carbonated and non-carbonated soft drinks for cola drinks i.e. brand substitution. Out of 58 respondents, 53% of the respondents did not buy any local cola brand in the last one month at the time the questionnaire was administered. This could also be interpreted that respondents of the surveyed age group were largely inclined towards consuming a global brand.

When the respondents were asked to rate the factors that they mostly liked or disliked in a local cola on a likert scale, only health consciousness

and pride had a significant relationship with consumption of local cola drinks. This meant that for the respondents in this age group to choose a local cola over global cola they looked at health consciousness and the level of pride they felt while they consumed a quality global flavor offered by a local brand.

In the recent times in India along with the literacy rate going up consumers are also being exposed to benefits of natural drinks and cons of carbonated, sugary high calorie drinks. Following the path that few countries have already set, Government of India is also creating a subtle ripple of awareness and social/health affecting messages on consumption of sugary products. In the last decade consumer knowledge on adulteration of food and beverages, scandals that have happened in different industries have made consumers more aware and cautious. These factors could thus be contributing to rating health consciousness as a high factor when it comes to choosing a local cola brand.

However, when, a cross tabulation of pride was done with how a consumer would behave when he was socializing versus when he would be alone, pride as a factor was neutral. Majority agreed that they would have a global drink when in company or alone, what came as an assertive response to the research gap was a significant number of respondents said that they prefer a global cola when in company and a local cola while alone. When asked directly if their choice of beverage was affected by the company that they had majority gave an affirmative answer. This implies that when it comes to consuming a cola drink with

**Table 3.** Consumption of local cola versus global cola

Percentage of Local Cola	Frequency	Percentage
0	31	53.4
25	12	20.7
50	9	15.5
75	4	6.9
100	2	3.4
Total	58	100.0

**Table 4.** Chi Square results

	Chi Square	Df
Taste	5.009	4
Price	4.238	3
International brand appeal	4.03	4
Hygiene	2.402	4
Health consciousness	14.491***	4
Pride	8.587**	4
Availability	2.059	3

**Table 5.** Analysis of behavior pattern versus pride

1	Pride					Total	
	2	3	4	5			
If you were X Which one of the following ways would you consider to best describe your choice	1	2	7	14	7	1	31
	2	0	2	6	2	1	11
	3	0	1	3	1	0	5
	4	0	2	6	1	2	11
Total	2	12	29	11	4	58	

anyone “Observability” definitely had a role to play for the respondent age group.

While trying to find out what are the factors that contribute to flavor substitution, Culture rootedness emerged as a significant factor.. Culture rootedness is one’s attachment to flavors that one has been brought up with or those flavors that come as an integral part of geographical culture.

For a person from Dakshina Kannada, a district in Karnataka, Kokum is a fruit that is dried after ripening and a refreshing drink is made which is served usually during summers, also Southern part of Karnataka is famous for Tender Coconut. There are a few local players with the latest generation in business who have capitalized on this opportunity and packaged kokum, Tender coconut milkshake, Til juice which are now a big hit amongst the crowd. Similarly, Hazoorilal and Sons from the Northern part of India have taken their business to the next new level with culturally rooted flavors like jimlim lime, Kashmiri Jeera masala, which they have marketed for decades. Companies like hector beverages are entering the market Pan India with out of the box packaging, attractive marketing but with local flavors that can entice a Indian’s taste buds, like Gol gappa, chilled rasam, sattu drink, aamras, jamun. These flavors are a beautiful blend of history and geography.

## 8. Conclusion

Reverse Consumer Preference as a term though has not been defined in literature specifically, is a phenomenon that is being observed across many industries be it FMCG, Health Products or Food and Beverage Industry. The movement can happen

through either Brand substitution or flavor substitution. The study done confirmed that Health Consciousness and pride are influential factors when the respondents had to choose a local cola over a global cola. Observability as a factor when one consumed a local flavor while in company of others also emerged in this study done with respondents in their early twenty’s. The research area on Reverse consumer preference has vast scope in the coming times and this study is a base for comprehensive studies that will be carried out further. It will be a matter of great interest to see if reverse consumer preference in soft drink prevails or global brands continue their waging war joining hands with the movement of globalization in emerging markets and win.

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