Group Case Study Project

The Coca-Cola Company

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Abstract

This paper is a strategic analysis of The Coca-Cola Company (Coca-Cola), a leader in the beverage industry. Coca-Cola, the world’s leading soft drink maker, operates in more than 200 countries and owns or licenses more than 500 brands of nonalcoholic beverages.

The company faces challenges in today’s market because of market changes, socio-economic changes and globalization. An external analysis of the soft drink industry is performed to understand the impact of environment. An internal analysis of Coca-Cola is performed to understand the internal capabilities.

The conclusion of this case study emphasizes that the company needs to reduce its dependence on carbonated beverage and diversify its product portfolio into the noncarbonated sector to remain competitive.
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Section 1: Introduction

The Coca-Cola Company (Coca-Cola), the world’s leading soft drink maker, operates in more than 200 countries and sells 400 brands of nonalcoholic beverages. Coca-Cola is also the most valuable brand in the world. Coca-Cola is a globally recognized successful company. The Coca-Cola was founded in May of 1886 and continues for more than a century through the times of war and peace, prosperity and depression and economic boom and bust. As late as the 1990s, Coca-Cola was one of the most respected companies in the world, building and known as a very successful management team. Since 1998, the company has been struggling with internal weaknesses and external threats.

The purpose of this case study is to assess the current situation of Coca-Cola and the industry, evaluate the existing resources, and provide strategic recommendations.

An internal analysis of the company is in Section 2. Section 3 provides general trends affecting the industry. Section 4 analyses the external factors of Coca-Cola by using Porter’s Five Forces. Last section, Section 5, is to conclude key future challenges facing by Coca-Cola and provide recommendations.
1.1 Mission and Objectives

Mission

Coca-Cola declares the purpose as a company and serves as the standard against actions and decisions:

- To refresh the world…
- To inspire moments of optimism and happiness…
- To create value and make a difference.

Vision

The vision of Coca-Cola is the framework for their guides of every aspect of its business. It is presented in 6Ps:

1. People: Be a great place to work where people are inspired to be the best they can be.
2. Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.
3. Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.
4. Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities.
5. Profit: Maximize long-term return to shareowners while being mindful of our overall responsibilities.
6. Productivity: Be a highly effective, lean and fast-moving organization.
1.2 Past and Present

1894 … A modest start for a bold idea

In a candy store in Vicksburg, Mississippi, brisk sales of the new fountain beverage called Coca-Cola impressed the store's owner, Joseph A. Biedenharn. He began bottling Coca-Cola to sell, using a common glass bottle called a Hutchinson. Biedenharn sent a case to Asa Griggs Candler, who owned the Company. Candler thanked him but took no action. One of his nephews already had urged that Coca-Cola be bottled, but Candler focused on fountain sales.

1899 … The first bottling agreement

Two young attorneys from Chattanooga, Tennessee believed they could build a business around bottling Coca-Cola. In a meeting with Candler, Benjamin F. Thomas and Joseph B. Whitehead obtained exclusive rights to bottle Coca-Cola across most of the United States (specifically excluding Vicksburg) -- for the sum of one dollar. A third Chattanooga lawyer, John T. Lupton, soon joined their venture.

1900-1909 … Rapid growth

The three pioneer bottlers divided the country into territories and sold bottling rights to local entrepreneurs. Their efforts were boosted by major progress in bottling technology, which improved efficiency and product quality. By 1909, nearly 400 Coca-Cola bottling plants were operating, most of them family-owned businesses. Some were open only during hot-weather months when demand was high.
1916 … Birth of the contour bottle

Bottlers worried that the straight-sided bottle for Coca-Cola was easily confused with imitators. A group representing the Company and bottlers asked glass manufacturers to offer ideas for a distinctive bottle. A design from the Root Glass Company of Terre Haute, Indiana won enthusiastic approval in 1915 and was introduced in 1916. The contour bottle became one of the few packages ever granted trademark status by the U.S. Patent Office. Today, it's one of the most recognized icons in the world - even in the dark!

1920s … Bottling overtakes fountain sales

As the 1920s dawned, more than 1,000 Coca-Cola bottlers were operating in the U.S. Their ideas and zeal fueled steady growth. Six-bottle cartons were a huge hit after their 1923 introduction. A few years later, open-top metal coolers became the forerunners of automated vending machines. By the end of the 1920s, bottle sales of Coca-Cola exceeded fountain sales.

1920s and 30s … International expansion

Led by longtime Company leader Robert W. Woodruff, chief executive officer and chairman of the Board, the Company began a major push to establish bottling operations outside the U.S. Plants were opened in France, Guatemala, Honduras, Mexico, Belgium, Italy, Peru, Spain, Australia and South Africa. By the time World War II began, Coca-Cola was being bottled in 44 countries.
1940s … Post-war growth

During the war, 64 bottling plants were set up around the world to supply the troops. This followed an urgent request for bottling equipment and materials from General Eisenhower's base in North Africa. Many of these war-time plants were later converted to civilian use, permanently enlarging the bottling system and accelerating the growth of the Company's worldwide business.

1950s … Packaging innovations

For the first time, consumers had choices of Coca-Cola package size and type -- the traditional 6.5-ounce contour bottle, or larger servings including 10-, 12- and 26-ounce versions. Cans were also introduced, becoming generally available in 1960.

1960s … New brands introduced

Following Fanta® in the 1950s, Sprite®, Minute Maid®, Fresca® and TaB® joined brand Coca-Cola in the 1960s. Mr. Pibb® and Mello Yello® were added in the 1970s. The 1980s brought diet Coke® and Cherry Coke®, followed by POWERADE® and DASANI® in the 1990s. Today hundreds of other brands are offered to meet consumer preferences in local markets around the world.
1970s and 80s … Consolidation to serve customers

As technology led to a global economy, the retailers who sold Coca-Cola merged and evolved into international mega-chains. Such customers required a new approach. In response, many small and medium-size bottlers consolidated to better serve giant international customers. The Company encouraged and invested in a number of bottler consolidations to assure that its largest bottling partners would have capacity to lead the system in working with global retailers.

1990s … New and growing markets

Political and economic changes opened vast markets that were closed or underdeveloped for decades. After the fall of the Berlin Wall, the Company invested heavily to build plants in Eastern Europe. And as the century closed, more than $1.5 billion was committed to new bottling facilities in Africa.

21st Century …

The Coca-Cola bottling system grew up with roots deeply planted in local communities. This heritage serves the Company well today as people seek brands that honor local identity and the distinctiveness of local markets. As was true a century ago, strong locally based relationships between Coca-Cola bottlers, customers and communities are the foundation on which the entire business grows.
1.3 Products and Competency

Coca-Cola originated as a soda foundation beverage in 1886 to one of the most popular beverage over the world due to few main causes:

- Adoption of strong bottling system.
- Massive levels of penetration and recognition.
- Distribution network.

Three businesses, units-sparkling beverages, still beverages and emerging brands will define Coca-Cola’s focus in the North America market, where it faces stiff competition from rival PepsiCo and makers of healthier beverages such as juices.

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Section 2: Internal Analysis

2.1 World Leader in Soft Drink Industry

The Coca-Cola Company is the world's largest manufacturer, distributor, and marketer of nonalcoholic beverage concentrate (including carbonated soft drink) and syrups. It was originally founded in the United States in 1886.

Coca-Cola has strong brand recognition across the globe. The company has a leading brand value and a strong brand portfolio. Interbrand, a branding consultancy, ranks Coca-Cola the top leading brands in their best global brands ranking in 2009 and 2010. In 2010, it valued Coca-Cola at US$70,452 million in 2006.

Furthermore, Coca-Cola owns a large portfolio of product brands. Coca-Cola owns or licenses more than 500 brands, with a portfolio of more than 3,500 beverages. Products include diet and regular sparkling beverages, 100% fruit juices, fruit drinks, waters, sports and energy drinks, teas and coffees, and milk-and soy based beverages. It owns and markets four of the world's top five soft drink brands: Coca-Cola, Diet Coke, Sprite and Fanta.
2.2 Wide Geographic Coverage

Coca-Cola sells finished beverage products bearing the Coca-Cola trademarks in more than 200 countries. Up to 2011, Coca-Cola has 7 operating leadership groups worldwide: Eurasia & Africa Group, Europe Group, Latin America Group, North America Group, Pacific Group, Bottling Investments Group and McDonald's Division.

Their consumers come from different parts of the world. According to the Annual Report of the Coca-Cola, in 2010, worldwide consumption of each person was 89 bottles of 8 ounces finished Coca-Cola beverage. There were 23 countries having the average number of consumption over 100 bottles, e.g. Australia, South Africa, Japan, Spain, Argentina, Canada. In Mexico, each person drank 675 bottles in 2010.

2.3 Good Financial Performance

In 2010, its net operating revenue reaches US$35 billion, with an approximate 13% growth. In its major market, North America market, it volume grows 2% for the full year 2010.

There is a strong worldwide volume growth of 5% in 2010. There is 4% worldwide volume growth was led by brand Coca-Cola, driven by a wide array of global markets, including 37% in Russia, 20% in Turkey, 10% in India, 8% in Brazil, 7% in
South Africa, 5% in Japan, 5% in Mexico and 2% in France. The shift towards foreign markets as a financial concern is likely to continue.

2.4 Negative Publicity

The company received negative publicity in that past decade.

In 2003, it was revealed that several midlevel employees had rigged a marketing test for Frozen Coke done three years earlier at Burger King Restaurants in Virginia. The scandal led to the departure of the head of Coke's fountain division, and the company issued an apology to Burger King and its franchisees and offered to pay them US$21 million.

In the early 2004, the launch of the Dasani brand into the European market was cancelled when bottles in Britain were found to contain elevated levels of bromate, a substance that can cause cancer after long-term exposure.

In India, during September 2006, Coca-Cola was accused by the Center for Science and Environment (CSE) of selling products containing pesticide residues. Coca-Cola products sold in and around the Indian national capital region contained a hazardous pesticide residue. These pesticides included chemicals which could cause cancers, damage the nervous and reproductive systems and reduce bone mineral density.
Besides, Coca-Cola’s products are always labeled as “junk food”. People criticize Coca-Cola’s beverage contain too much sugar and high is calories. It is labeled as one of the important factors of causing serious obesity rate in developed countries.

Such negative publicity could adversely impact the company’s brand image and the demand for Coca-Cola products. This could also have an adverse impact on the company’s growth prospects in the international markets.

2.5 Sluggish Performance in North America

In North America market, the sales volume recorded falls between 2006 and 2009. Sales volume in North America decreased 1% primarily due to weak sparkling beverage trends in the second half of 2006 and decline in the warehouse-delivered water and juice businesses. In early 2009, the domestic sales volume dropped 2% in a quarter.

2.6 Lack of Diversification

Coca-Cola owns or licenses more than 500 brands. However, most of the brands are various kinds of beverages. On the contrary, another soft drink leader, PepsiCo, has a better diversification. Surprisingly, PepsiCo’s product mix (up to 2009) consists of 63% food, and 37% beverages. Lack of diversification of business area will affect Coca-Cola’s sales seriously if the demand for beverages decreases.
Section 3: General Environment Analysis

This section is to analyze the general environment trend and the effects on soft drink industry.

3.1 Globalization

As there is a continuous growth rate of the use of the Internet and other electronic technologies, global communication and logistic system is rapidly increasing. This allows firms to collaborate with the domestic market and expand into world markets. According to a recent research conducted by Just-Drinks, a global beverage industry research institution, between 2009 and 2014, the compound annual growth rate (CAGR) of global functional soft drink value sales will increase from 5.07% (2001-2008) to 5.84% (2009-2014). The global soft drinks market is estimated to reach a value of at least US$484 billion by 2014.

3.2 Increasing Concerns on Health Issue

As soft drinks have been introduced since 1798 (American Beverage Association, 2005), buyers want innovation with the products they buy. Besides, there is an increase concerns on healthy lifestyle, especially in developed countries. "Consumer awareness of health problems arising from obesity and inactive lifestyles represent a serious risk of the carbonated drinks sector" (Datamonitor, 2005). These trends lead Coca-Cola to differentiate its products in order to increase sales in a stagnant market.
Section 4: External Analysis of Coca-Cola

This section is to analyse the external threats to the Coca-Cola by using Porter’s Five Forces Model.

Porter suggests five forces that determine industry profitability: competitive rival sellers within the industry, new entrants to the industry, substitute products, suppliers, and buyers. The set of factors directly influences a firm and its competitive actions and competitive responses. The weaker the forces, the greater the opportunity for superior performance by firms within the industry.

4.1 Low Threat of New Entrants

Threat of new entrants is low in the soft drink industry. To enter the industry, it requires high fixed costs for production, warehouses, trucks, labour and marketing activities. As there are limited bottlers, new entrants may need to build their bottling plants. It requires large amount of capital. In 1998, new efficient plant capital required US$75 million. The advertising and marketing expenditure in the industry in 2000 was around US$2.6billion mainly by Coca-Cola, Pepsi and their bottlers. The average advertisement spending per point of market share in 2000 was US$8.3million. This makes it extremely difficult for an entrant to compete with the incumbents and gain any visibility.
Both Coca-Cola and PepsiCo have agreements with their existing bottlers who have rights in a certain geographic area in perpetuity. These agreements prohibit bottlers from taking on new competing brands for similar products. Also, both Coca-Cola and PepsiCo have backward integration --- buying significant percent of bottling companies, it is very difficult for new entrants to find bottlers to distribute their products.

In general, retailers enjoy significant margins of 15-20% on soft drinks for the shelf space they offer. It is difficult for the new entrants to convince retailers to substitute their new products for Coca-Cola and Pepsi at a lower margin. Even new entrants are willing to pay the same percentage of margins, the price of their products may not be as competitive as Coca-Cola’s and Pepsi’s.

Coke and Pepsi have a long history of heavy advertising. This makes them dominate with their strong brand name and loyal customers all over the world. This makes it virtually impossible for a new entrant to match this scale of share in this market.

Therefore, the threat of new entrants is relatively low to Coca-Cola.
4.2 Strong Threat of Substitutes

There are many kinds of substitutes for Coca-Cola products. They are bottled water, sports drinks, coffee and tea. As consumers concern more about health, bottled water and sport drinks are increasingly popular. This trend is epitomized in the beverage consumption pattern of the ageing baby boomers.

In the markets, there is an increase of numbers and varieties of water and sports drinks that appeal to different consumers’ tastes. Those are advertised as healthier drinks. In addition, coffee and tea are competitive substitutes because they provide caffeine. Soft drinks can be substituted with coffee. Blend coffees are also becoming more popular with the increasing number of coffee stores, e.g. Starbucks, which offer many different flavors to appeal to different consumer markets. Low switching costs for the consumer makes the threat of substitute products very strong (Datamonitor, 2005).

4.3 Low Threat of Suppliers

Major suppliers to Coca-Cola are commodity ingredients suppliers and bottlers.

The bargaining power of commodity ingredients suppliers is low. Most of the raw materials needed to produce concentrate are basic commodities like color, flavor, caffeine or additives, sugar etc. As the producers of these products are generally providing the same products, they have lower power over the pricing hence the suppliers in this
industry are weak. However, with an increasing sugar and packaging material prices, it directly affects the profitability of the Coca-Cola’s products.

Coca-Cola does not do any bottling itself. It is done by independent bottlers. One of the bottlers is Coca-Cola Enterprises. This is the largest bottler in the world. It was once independent from Coca-Cola which Coca-Cola held majority shares without controlling power. However, Coca-Cola integrated Coca-Cola Enterprises earlier in 2010. It can have a better control distribution and be quicker to market with products - both key as the company keeps up with people's changing tastes. Besides, it expects to save at least $350 million per year, phased in over the next four years. As a result, the bargaining power of suppliers is weakened.

4.4 Moderate Bargaining Power of Buyers

The buyers of Coca-Cola and other soft drinks are mainly large grocers, convenience stores, supermarkets, and restaurants. The soft drink companies distribute the beverages to them for resale to the consumer. The bargaining power of the buyers is strong. Large grocers, convenience stores, supermarkets and fast food restaurants buy large volumes of the soft drinks, which allow them to bargain a lower price. Besides, with the decreased demand for unhealthy soft drinks of consumers, buyers can have a larger bargaining power on the price of soft drink.
4.5 Strong Competitive Rivalry

The competitive pressure from rival sellers is the greatest challenging faced by Coca-Cola. PepsiCo is the main competitor for Coca-Cola and these two brands have been in a power struggle for more than a century.

Although Coca-Cola owns four of the top five soft drink brands (Coca-Cola, Diet Coke, Fanta, and Sprite), PepsiCo dominated North America with sales of US$22billion, while Coca-Cola only had about US$7billion. However, Coca-Cola has higher sales in the global market than PepsiCo.

Brand name loyalty is another competitive pressure. The Brand Keys Customer Loyalty Leaders Survey 2010 shows the brands with the greatest customer loyalty in all industries, Diet Pepsi ranked 258th (the highest ranking of diet soft drink) and Pepsi Coke (the highest ranking of regular coke) ranked 324th, while Diet Coke, the highest ranking of Coca-Cola’s products, is far behind Pepsi’s soft drinks at the position 336th. From this, Pepsi has a more solid loyal customer base which can make itself more competitive than Coca-Cola.
Section 5: Key Future Challenges and Strategic Recommendations

This section is to identify future key challenges that Coca-Cola will face in the future. These key challenges may pose negative impact on the long-term profitability and market share of Coca-Cola. Therefore, recommendations are provided to turn challenges into opportunities.

5.1 Declining Sales Volume in Soft Drink Sector

William Pecoriello, a leading beverage industry analyst from Morgan Stanley & Co, predicts the carbonated soft drink (CSD) category,

“The current set of teens may become the “lost generation” for the CSD category. ... Our latest survey of 1,550 consumers aged 13-65 supports our view that the US CSD segment is likely to remain under pressure. We maintain a forecast for a 1.5 percent annual volume decline for the CSD segment” (Beverage World 2007).

In the major market of Coca-Cola, US market, the volume sale of carbonated soft drink dropped more than 8% in 5 successive years, from 2005 to 2009, with 0.2% in 2005, 0.6% in 2006, 2.3% in 2007, 3% in 2008 and 2.1% in 2009. It is likely that the volume will keep declining.
5.2 Recommendations for Declining Sales Volume in Soft Drink Sector

If Coca-Cola focuses only on the carbonated soft drink sector competitively, it will weaken or make Coca-Cola lose the market leader in beverage industry. Coca-Cola can focus more on bottled water, noncarbonated drinks, and especially energy drinks. In 2006, energy drinks shot up by almost 50%. In 2010, energy drinks still had 10% growth. Energy drinks and healthy drinks will be major beverage needs of new generations of young consumers and health conscious consumers.

5.3 Health and Wellness Trend

Health and wellness continues to be a major trend across the global beverage market.

A study in the medical journal The Lancet in 2001 showed that daily serving sweetened soft drink increases the risk of becoming obese. Although diet soft drinks is soft drinks as a healthier substitute, but a 2004 study discouraged obese children to take diet soft drinks since they have no nutritive value. For elder consumers who concern about diabetes, they will switch from high-calorie soft drink to water or low-calorie juice. For young working class, they may prefer organics and more “natural” beverage to lower the consumption of negative chemicals.

Most soft drink consumers are slowly shifting their consumption to products that are healthier or have fewer negative side-effects.
5.4 **Recommendations for Health and Wellness Trend**

Coca-Cola should provide industry leadership in the health and wellness area. It should produce different kinds of products for different segments of the market. In baby boomers’ market, Coca-Cola should focus on marketing tea and water beverage which contain less sodium and sugar. In younger generation market, besides sport drink and energy drink, Coca-Cola can produce organic beverages for younger people.

5.5 **Increased Competition from PepsiCo**

For more than a century, Coca-Cola and PepsiCo have battled in cola war. However, as PepsiCo diversifies its product mix to food, especially healthy food, it overtook Coca-Cola in terms of its market capitalization in December 2006. Coca-Cola feels slight behind at US$97.9 billion to PepsiCo’s US$98.4 billion. By the end of 2010, Pepsi Co has a higher gross profit than Coca-Cola by US$8.8 billion. PepsiCo can invest more capital on research & development on beverage. Thus, competition from PepsiCo will remain a threat for Coca-Cola for coming years.
5.6 Recommendations for Increased Competition from PepsiCo

As PepsiCo has a horizontal expansion, Coca-Cola should have a vertical expansion. Within the products in PepsiCo, only 37% of products are beverages. Coca-Cola should focus on beverages business and related businesses, e.g. bottling, sugar plantation, or even tin can and glass recycling business.

Nowadays, environmental change is rapid. Coca-Cola should be sensitive to any new trend and position itself as a unique brand in order to keep its competitive advantage.
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