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The Strategy Analysis of Coca-Cola

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Abstract: The beverage industry shows fierce internal competition, which is aggravated by the significant impact on COVID-19 on the economy. Coca-Cola as one of the leader of multinational beverage companies, its strategy has certain reference values. This paper will start with Porter's Five Forces Model, SWOT analysis and value chain analysis to determine the overall strategy of Coca-Cola. Next, by comparing the financial report information in recent 3-5 years, this paper summarizes the adjustment of company strategy, analysis and processes financial data, and then proves the effect of Coca-Cola's operation and marketing strategy. Finally, make a prediction of the subsequent strategic application and enterprise development trend. It can be affirmed that Coca-Cola's good profitability and market status are inseparable from its strategy. Hope this paper could provide reference and inspiration for the development of companies in the same industry.

Keywords: Strategy, Financial Statements, COVID-19, Trend Prediction.

1. Introduction

Coca-Cola is one of the largest and most influential beverage enterprises in the world. It only focuses on the beverage market, which is very few among the companies in the same position at present. Therefore, it is also a good representative of the competition in the beverage market and corresponding strategic responses.

1.1. Background

In 1886, Dr. John Pemberton blended coca syrup with soda water, inadvertently giving birth to this unique beverage. One year later, he registered the trademark "Coca-Cola syrup and Concentrate" and used coupons to promote the product for the first time. While Coca-Cola Company was founded in 1892, that time the cocaine was removed from its formula that Coca-Cola was redefined as a drink instead of a drug. Then in 1899, its first assembly franchise was sold, and Coke's authorized bottling system took shape progressively. The replacement of non-standard cups by standardized bottles was a significant step for Coca-Cola and also underpinned its worldwide popularity. In 1915, Coke's classic curved bottle design was created and became a registered trademark in 1960, which has become part of its brand image.

Applying its business model of "Advertising + Mysterious Formula + Bottling Franchise", Coca-Cola started to internationalize in the 1890s, radiating to the United States and surrounding areas, then entered Europe in the 1920s, and eventually became the first truly universal brand of the early 20th century. In 1971, it became the world's largest beverage trademark and nowadays, Coca-Cola

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has nearly 50% of the global market share, and the products have been sold to more than 200 countries and regions in the world. It has opened a large number of overseas production lines, driving the local economy and employment, and practicing its philosophy, Refresh the world. Make a difference [1].

1.2. Motivation

The basic business route established by Coca-Cola at the early stage has proved effective, but specific measures were not always successful. This paper will focus on the impact on the experience of failure of the application of current measures. Coca-Cola has successfully survived many crises in the over 100-year history, and this time it has recovered from the sudden blow of COVID-19 very quickly. Its strategy is worthy of study.

1.3. Structure

This message is divided into four parts:

The first part, overall policy, adopts the method of model analysis, including Porter's Five Forces Model, SWOT analysis and value chain analysis, in order to determine the formation and utilization of Coca-Cola's own advantages.

The second part, financial information analysis, uses data comparison and ratio analysis to sort out the financial report information of Coca-Cola Company, provide basis of the final conclusion, and predicts the next strategy and management trends.

The third part is the integration of Coca-Cola's operation and marketing strategies, in order to find out the sources of Coca-Cola's ability to resist risks in the face of COVID-19.

Finally, the conclusion of this paper provides reference to the same industry.

1.4. Prior literature

Most of the strategic studies of Coca-Cola focuses on its brand strategy, marketing strategy and expanding strategy, while few focus on its management strategy. Recently, more studies have been conducted on its handle on COVID-19.

BanutuGomez, et al argued that Coca-Cola's operations had demonstrated the effectiveness of six key global expansion strategies including differentiation, distribution, collaboration, labor and management, etc. And in fact, Coca-Cola has achieved an excellent position without fully utilizing these strategies [2].

Zhu pointed out that "Brand development needs the 'five more' strategy of multi-brand, multi-category, multi-scene, multi-channel and multi-consumer group." [3] In the face of the new generation of people pay more attention to healthy diet and pursues the "no sugar, low sugar", Coca-Cola tends to carry out the layout of the whole category.

2. Overall Policy

2.1. Porter's Five Forces Model

2.1.1. Threat of new entrants: Moderate

The beverage industry has polarization, economies of scale, asset comparison, policy requirements, etc. which are difficult to achieve at the very start shows that large companies are generally not threatened by new entrants

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However, low network effect and low consumer transfer cost determine that there is a certain threat of entry for lower-level companies, and this threat has seasonal characteristics, which is higher in summer and before festivals than other times

2.1.2. Bargaining power of suppliers: Low

Beverage industry to raw material supplier concentration is low, materials have alternative. And beverage consumers don't care about the origin of ingredients, or even the list. Although mature companies tend to have long-term stable suppliers, the cost of switching is not very high.

2.1.3. Bargaining power of buyers: Low

The homogeneity of drinks is very high, but this does not mean that consumers have bargaining power. First, the purchasing group is huge, which disperses the overall price influence. Second, the profits from each item are divided among beverage manufacturers and multi-level distributors, and small margins mean little room for negotiation. Finally, part of the consideration of consumers pays for the unique creativity of the merchants and the supporting services of the store drinks.

2.1.4. Threat of substitute: High

There is a high rate of substitution within the beverage industry, and not only are different types of beverages interchangeable, such as milk and juice. Meanwhile, commercial beverages may also be replaced by hand-brewed coffee, homemade fruit tea and direct drinking water. The latter may be healthier and greener, popular in recent years, but are less convenient, so they are not much of a threat.

2.1.5. Industry Rivalry: High

Companies of similar size and product category are generally considered competitors, but given the growing number of multinationals and cross-category companies, major brand owners also compete with local or regional operating corporations, firms with popular emerging and so on.

The means of competition are diverse: price, marketing, product update speed and so on. For the industry, most competition is beneficial, can stimulate innovation of participants and industry vitality.

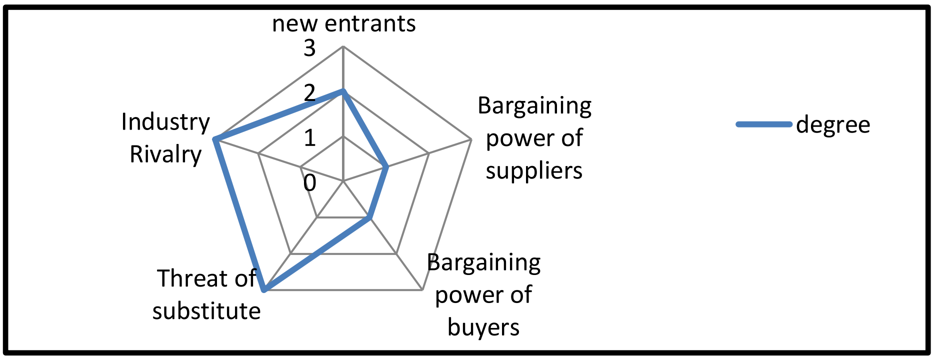

Figure 1: Porter's Five Forces Model.

As shown in Figure.1**,** the five forces assessment of the beverage market environment shows that the beverage market is a quasi-oligopoly market [4].

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2.2. Value Chain analysis

2.2.1. Support Activities

2.2.1.1. Firm infrastructure

The company adopts asset-light strategy. Majority of its product infrastructures are concentrated liquid production lines, fewer for finished products, and others include operating facilities and marketing facilities. Most of the filling and packing equipment is provided by the partner companies.

2.2.1.2. Human resources management

There are special committees are responsible for safeguarding the rights and interests of employees and arranging regular voluntary job training to ensure that the company has a mature operation and marketing team.

2.2.1.3. Technology development

It mainly research for more economical production, filling and packaging technology, set up and development of terminal vending machines.

In addition, they built internet information platforms including but not limited to transactional work, warehouse monitoring, data management consumer analytics and digital commerce.

2.2.1.4. Procurement

Parts of procurement from their own specialist purchasing companies and parts of it by utilizing the vertical supply chain of the partner.

2.2.2. Primary activities

2.2.2.1. Logistics

Use the logistics transportation network from their commercial partners, for example purchasing agents, bottle traders, distributors, suppliers and so on.

2.2.2.2. Operations

On the one hand, it increases product category, like launching zero-sugar zero-calorie concept products. On the other hand, it initiates sustainable development activities and adopts environmental protection packing.

2.2.2.3. Marketing & Selling

Coca-Cola has mature marketing ability: in addition to advertising and long-term sponsorship of influential activities, in-depth market segmentation, giving unique marketing activities, such as cross-industry linkage marketing, celebrity advertising, digital marketing and so on.

2.2.2.4. Service

The company has global business services timely feedback system and provides services for downstream authorized partners' production and marketing guidance.

In short, Coca-Cola's value chain heavily relies on the bottlers, packers and distributors. But as the core of the cooperation network, Coke can not only control costs and reduce its own equipment investment by shortening the production process but also quickly respond to market changes by taking advantage of the sensitive value chain characterized by information sharing and linear correlation. In addition, it can effectively spread risk and promote sales profit by adjusting different brands in the industry investment. Meanwhile, the company focused on marketing to promote sales.

2.3. SWOT Analysis

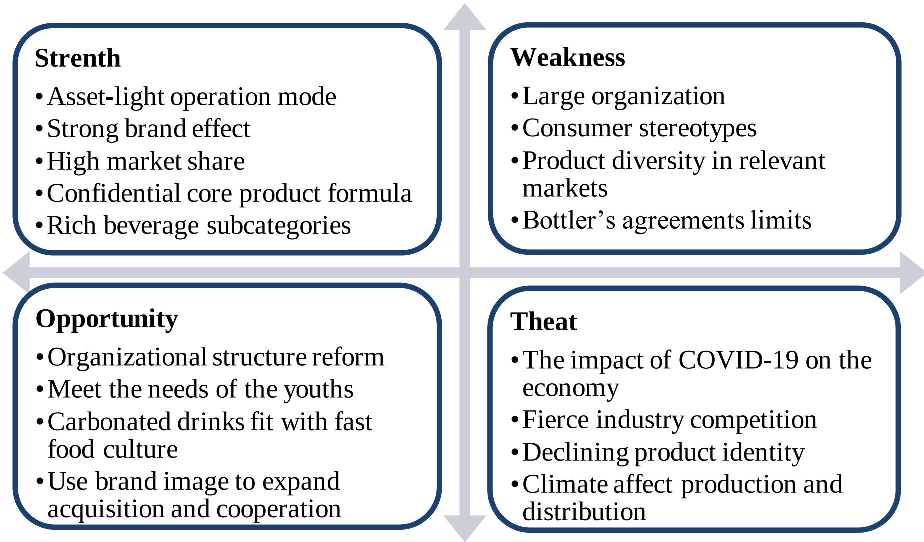

Figure 2: Coca-Cola SWOT Analysis.

The information in Figure.2 is as follows:

Strength: Coca-Cola's greatest benefit comes from its long history, so that it can occupy the market earlier and collect brand capital. Another source of advantage is the business model it followed to this day: (1) Utilizing large-scale publicizing, symbolic element design and big event sponsorship bring maximum exposure and attract people to purchase. (2) Mystery and strict formulations assisted keep its brand statue and customer loyal. (3) Bottling permitting framework allows Coke to have boundless replication capacity and popularity base. (4) Environmental protection concept, charitable combination, etc. create Coke a good brand image.

Opportunity: Coca-Cola will take advantage of the synergies effect of its brand acquisition in recent years to cater to consumer demand by launching more products. In addition, maintaining a high compatibility between its original carbonated beverage and the fast-food market.

Weakness: Coca-Cola's business network is too large so that there are problems in management. It is worth noting that Coke has a history of signing long-term agreements with its partners that impede the company do some broad coordinated action, and then missed some market opportunities.

Threat: The danger of Coca-Cola comes from three aspects. First, the natural climate may affect its raw materials. Second, Coke has a lot of intangible and long-term assets on its book that are more dependent on market activities, making their value vulnerable to the economic downturn caused by the COVID-19 pandemic. Third, the competition, not only its old competitor such as Pepsi cola, but also the indeterminacy risk of being able to compete against the original brands in the newly expend areas.

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2.4. Competitive strategies

2.4.1. Marketing strategy

Coca-Cola's market share has been threatened by its main competitors, so it has a large amount of marketing expenditure every year. In addition to creative advertising and large-scale event sponsorship, the effect of Coca-Cola's classic marketing cases: curved bottles (1915), Santa Claus (1931), multi-functional vending machines (since 2010), creative bottle caps (since 2014) and so on continues to this day [5].

Coca-Cola attaches great importance to localization in its marketing activities, which may be related to the frustration of American advertising and marketing in the Chinese market at the early stage of internationalization. The current project setting is carried out in cooperation with local creative companies in the target market to find consumers' needs and interests.

2.4.2. Localization strategy

Coca-Cola's bottler and distributor authorization model is the most typical localization strategy, which has the following functions: (1) It is conducive to the company to adopt the asset-light strategy, so as to reduce its inventory risk. (2) It is conducive to stimulate the production and sales enthusiasm of the authorized partners at the place of sale, while reducing production and transportation costs to increase profits. (3) By providing jobs, it can gain favour from the government and the public and enter the market quickly.

2.4.3. Differentiation strategies

Coca-Cola Company combines the two methodologies of low cost and differentiation, but its competitive advantage comes more from the differentiation strategy.

The first is product diversification. Coca-Cola has increased its beverage branch categories under the brand in recent years through investment, acquisition, and joint venture, meanwhile continuously launched new flavor products, sometimes sold for limited time and limited quantity, to expand its brand network and influence.

The second is market segmentation, specifically for differentiated local marketing programs, differentiated profit distribution, differentiated product synergy combination, etc.

The third is the premium. According to relevant investigation reports, the price of Coca-Cola is inconsistent in different regions or even in the same region for different groups, but they are all higher than the local homogeneous products, and a considerable degree of the premium comes from the catering market and young customer groups.

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3. Analysis of financial Statement

3.1. Goodwill and Acquisitions

3.1.1. Goodwill

Table 1: Coca-Cola Co., Balance sheet: goodwill and intangible assets[1] (US$ in millions).

December 31,	2021	2020	2019	2018	2017
Trademarks	14,465	10,395	9,266	6,682	6,729
Goodwill	19,363	17,506	16,764	10,263	9,401
Other	211	225	219	157	244
Indefinite-lived intangible assets	34,039	28,126	26,249	17,102	16,374
Customer relationships	336	195	344	185	205
Trademarks	189	245	177	186	182
Other	273	332	396	118	307
Definite-lived intangible assets, gross carrying value	798	772	917	489	694
Accumulated amortization	(224)	(348)	(400)	(321)	(432)
Definite-lived intangible assets, net carrying value	574	424	517	168	262
Intangible assets	34,613	28,550	26,766	17,270	16,636

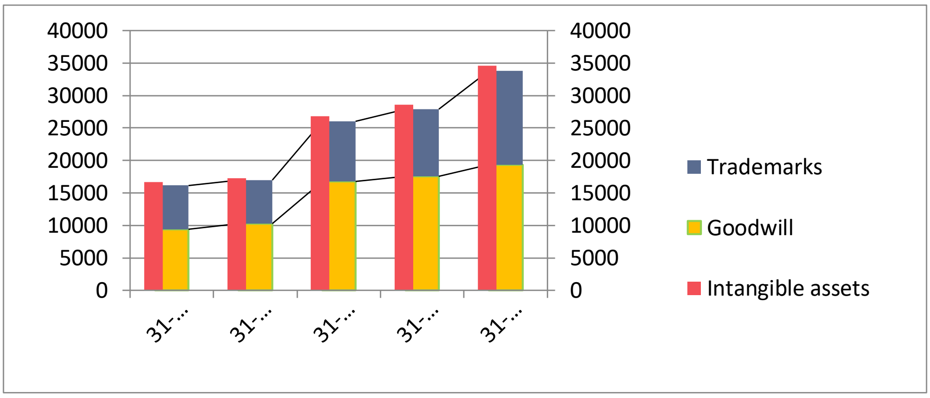

Figure 3: Goodwill and Trademarks from 2017 to 2021 (USA$ in million).

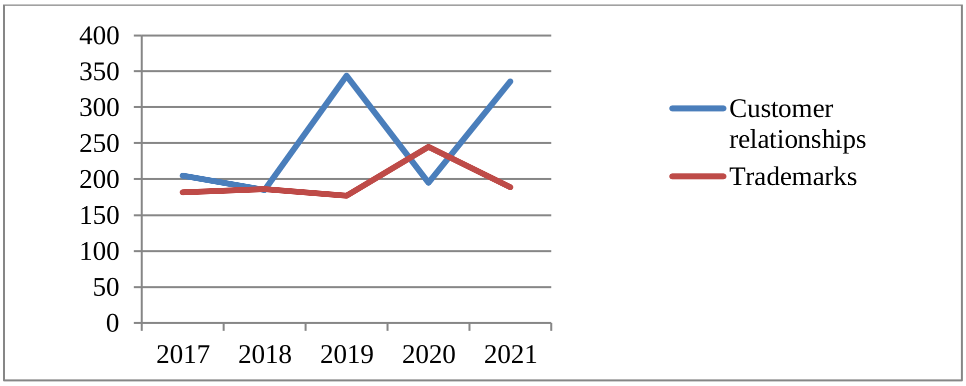

Figure 4: Definite-lived intangible assets from 2017 to 2021 (USA$ in million).

From the comparison of Coca-Cola's intangible assets (Table 1. & Figure 3.) in the past five years, it can be seen that its intangible assets mainly indefinite-lived, actually consist of goodwill and trademark. In the recent year, most of the acquisitions are at a premium, bringing greater goodwill [6].

In 2020, there was a dip of customer relationship, due to the impact of COVID-19, and the rise in branding has demonstrated the effectiveness of the strategy (Figure 4.). Details are given in a later section.

3.1.2. Acquisitions

In 2017, Coca-Cola obtained TopoChico, a Mexican sparkling water brand established in 1895, followed by rolling out TopoChico Hard soda sparkling wine.

In 2019, Coca-Cola bought Costa, the largest coffee chain in the UK, which was the company's largest acquisition at the time. Through this acquisition, the company not as it obtained the coffee business's organization of retail stores in the Middle East, Africa, Europe and Asia Pacific and the state-of-the-art roaster. Additionally, the Costa Express distributing framework provides an extensible stage over multiple formats and channels, counting the opportunity to launch ready-to-drink products.

In 2020, Coca-Cola procured the American dairy beverage brand Fairlife.

In 2021, Coca-Cola acquired BodyArmor, which offers a line of sports performance and hydration refreshments within America. It was the largest acquisition ever, exchanging approximately $5,600 million and generating a lot of buzz, both as a brand chain extension and as a marketing coup [7].

In recent years, it can be seen from Coca-Cola Company's acquisition layout that it is executing the strategy of full category layout, such as sparkling water, coffee, sport drinks and dairy products. This adequately demonstrates Coca-Cola's reaction to the contemporary fact that consumers trend toward healthy drinks, and strengthens the market expansion and synergistic value meanwhile.

3.2. Analysis of Balance Sheet Data

According to its balance sheets information about assets items (Table 2.), it can be seen that the total assets of Coca-Cola Company increased during 2020 and 2021, which may be affected by the increase of cash, transaction market, goodwill and other items, while it can also be noted that the investment decreased. Presumably, Coke sold some equipment and investments in 2021 to recoup cash and has made significant acquisitions.

In terms of liabilities (Table 3.), long-term liabilities are the main liabilities at present. In 2020, long-term liabilities have significantly increased, while loans and notes payable have significantly decreased. From the perspective of proportion changes, it may be that notes payable has been converted into long-term liabilities.

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Table 2: Common-size Analysis of Assets Items (US $ in million).

December 31,	2021		2020		2019	
ASSETS						
Cash and cash equivalents	9,684	10.26%	6,795	7.78%	6,480	7.50%
Short-term investments	1,242	1.32%	1,771	2.03%	1,467	1.70%
Total Cash, Cash Equivalents and Short-Term Investments	10,926	11.58%	8,566	9.81%	7,947	9.20%
Marketable securities	1,699	1.80%	2,348	2.69%	3,228	3.74%
Trade accounts receivable	3,512	3.72%	3,144	3.60%	3,971	4.60%
Inventories	3,414	3.62%	3,266	3.74%	3,379	3.91%
Prepaid expenses and other current assets	2,994	3.17%	1,916	2.19%	1,886	2.18%
Total Current Assets	22,545	23.89%	19,240	22.04%	20,411	23.63%
Equity method investments	17,598	18.65%	19,273	22.08%	19,025	22.02%
Other investments	818	0.87%	812	0.93%	854	0.99%
Other non-current assets	6,731	7.13%	6,184	7.08%	6,075	7.03%
Deferred income tax assets	2,129	2.26%	2,460	2.82%	2,412	2.79%
Property, plant and equipment - net	9,920	10.51%	10,777	12.35%	10,838	12.55%
Trademarks with indefinite lives	14,465	15.33%	10,395	11.91%	9,266	10.73%
Goodwill	19,363	20.52%	17,506	20.05%	16,764	19.41%
Total Assets	94,354	100.00%	87,296	100.00%	86,381	100.00%
Using total assets as a base for comparison						

Table 3: Common-size Analysis of Liabilities Items (US $ in million).

December 31,	2021		2020		2019	
LIABILITIES AND EQUITY						
Current Liabilities						
Accounts payable and accrued expenses	14,619	15.49%	11,145	12.77%	1,312	13.10%
Loans and notes payable	3,307	3.50%	2,183	2.50%	0,994	12.73%
Current maturities of long-term debt	1,338	1.42%	485	0.56%	4,253	4.92%
Accrued income taxes	686	0.73%	788	0.90%	414	0.48%
Total Current Liabilities	19,950	21.14%	14,601	16.73%	6,973	31.23%
Long-term debt	38,116	40.40%	40,125	45.96%	7,516	31.85%
Other non-current liabilities	8,607	9.12%	9,453	10.83%	8,510	9.85%
Deferred income tax liabilities	2,821	2.99%	1,833	2.10%	2,284	2.64%
Total Liabilities and Equity	94,354		87,296		86,381	
Using Total Liabilities and Equity as a base for comparison.						

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3.3. Analysis of Income Statement Data

For the income statement (Table 4.), corporate profits have been basically flat for nearly three years. In 2020, it was slightly lower, with a high probability that the business situation was affected by the COVID-19 pandemic.

In addition, the continuous decrease of interest income and the continuous increase of interest expense can be correlated with the decrease of short-term investment and the increase of long-term debt respectively

3.4. Ratio analysis

Table 4: Common-size analysis of income statement.

December 31	2021	2020	2019
Net Operating Revenues	38,655	33,014	37,266
Cost of goods sold	15,357	13,433	14,619
Gross Profit	23,298	19,581	22,647
Selling, general and administrative expenses	12,144	9,731	12,103
Other operating charges	846	853	458
Operating Income	10,308	8,997	10,086
Interest income	276	370	563
Interest expense	1,597	1,437	946
Equity income(loss)-net	1,438	978	1,049
Other income (loss)- net	2,000	841	34
Income Before Income Taxes	12,425	9,749	10,786
Income taxes	2,621	1,981	1,801
Consolidated Net Income	9,804	7,768	8,985
Less: Net income (loss)attributable to non-controlling interests	33	21	65
Net Income Attributable to Share owners of The Coca-Cola Company	9,771	7,747	8,920
Basic Net Income Per Share	2.26	1.8	2.09
Diluted Net Income Per Share	2.25	1.79	2.07
Average Shares Outstanding-Basic	4,315	4,295	4,276
Effect of dilutive securities	25	28	38
Average Shares Outstanding-Diluted	4,340	4,323	4,314

Table 5: Coca-Cola Co., decomposition of ROE.

	ROE	Net Profit Margin	Asset Turnover	Financial Leverage
2021	42.48%	25.28%	0.41	4.10
2020	40.14%	23.47%	0.38	4.52
2019	46.99%	23.94%	0.43	4.55
2018	37.89%	20.20%	0.38	4.90
2017	7.31%	3.52%	0.40	5.15

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3.4.1. DuPont Analysis of Coca-Cola and its competitors

For Coca-Cola (Table 5.), with the advantage of high net profit under the asset-light strategy, its increase in return on equity ratio (ROE) over 2021 because of the increase in efficiency measured by asset turnover ratio. All in all, the company has a high market competitive advantage.

3.4.2. Profitability ratio

Table 6: Profitability ratio.

	2021	2020	2019
Return on Sales			
Gross profit margin	60.27%	59.31%	60.77%
Operating profit margin	26.67%	27.25%	27.06%
Net profit margin	23.94%	23.47%	25.28%
Return on Investment			
Return on equity	39.44%	36.50%	42.59%
Return on capital employed	25.87%	19.15%	28.12%
Return on assets (ROA)	10.39%	8.90%	10.40%
Return on invested capital (ROCE)	15.20%	12.60%	17.00%

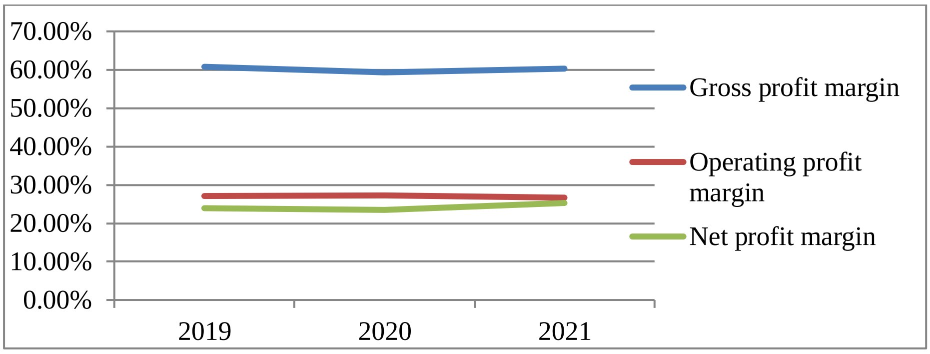

Figure 5: Graph for Profitability Ratio from 2019 to 2021 (a).

Figure 5. shows that from 2019 to 2021, the sales turnover was stable and the gross profit margin remained high, it shows that the high profit margins of Coca-Cola products have not been affected by COVID-19. The difference between the gross profit margin and the operating profit margin was huge, indicating that the company's other expenses, such as marketing expenses, were relatively high.

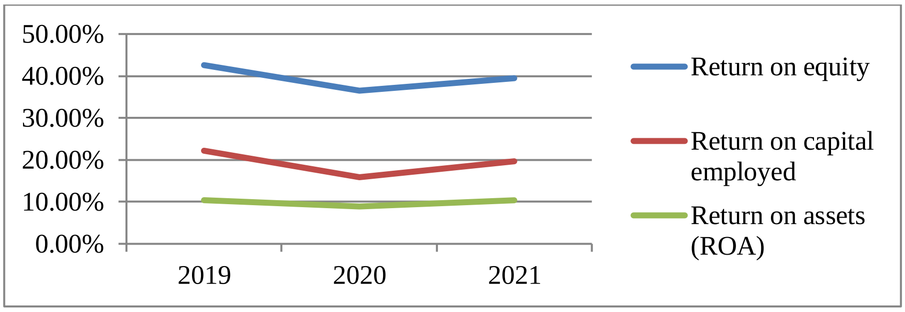

Figure 6: Graph for Profitability Ratio from 2019 to 2021 (b).

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Figure 6. shows the return on equity and return on capital employed fluctuated greatly in 2020. Combined with other information in the Table 6, the former is affected by the reduction of short-term investment resulting in the reduction of interest income, while the latter indicates that the increase of long-term liabilities in 2020 does have a significant impact on the financial status of enterprises.

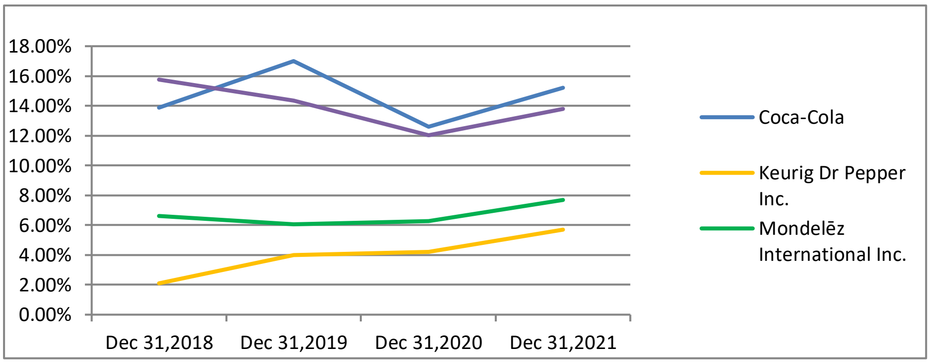

Figure 7: ROIC comparison of competitors.

Coca-Cola has a high Return on Invested Capital rate, which is over 12% in the recent four years that suggests that Coke is indeed at a premium. Figure 7. shows that the premium levels of Coca-Cola and Best Cola significantly higher than their competitors.

3.4.3. Liquidity ratio

Table 7: Liquidity ratio.

	2021	2020	2019
Current ratio	1.13	1.32	0.76
Quick Ratio	0.96	1.09	0.63

Under the asset-light operation mode, the asset-liability ratio of the company is always higher, which is especially obvious in emergencies. The figure for 2020 is higher than the previous two years and higher than the industry average (Table 7.).

3.4.4. Efficiency ratio

Table 8: Efficiency ratio.

	2021	2020	2019
Inventory holding period	79.4	90.3	80.5
Receivable collection period	31.4	39.3	37.5
Payable payment period	306.2	305.1	260.2
Working capital cycle	(195.4)	(175.5)	(142.2)

There is a long payable turnover period, even beyond the payback time of downstream companies (Table 8.), so it can concentrate funds on its own development to a greater extent. Maintaining such a state for a long time appears its absolute control over the transactions with suppliers. In reality,

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this is due to Coca-Cola's awesome energy and capital investment in constructing and maintenance the supply chain at the early developing stage.

3.4.5. Financial trend expectation

In the following period, Coca-Cola will (1) continue to maintain a high profitability of around 60% gross profit margin and around 27% profit margin; (2) maintain good revenue growth. Soft drink sales rebounded as cinemas, restaurants and sports venues resumed around the world; (3) the size of assets and debt paying ability return to previous levels or slightly increase after excluding the impact of the epidemic.

4. Coca-Cola's strategies under COVID-19

4.1. Risks

COVID-19 outbreaks brought Coca-Cola, both inside and outside two aspects of risk, internal risk including economic decline leads its customer relationships and trademarks assets impairment, and the company had to cut staff and equipment scale to release the pressure in supply chain, external risk including logistics blockade caused raw material and product transportation problem, customer flow obstruction and retail closures led to a direct drop in sales.

4.2. Strategies

In addition to traditional strategies, Coca-Cola has strengthened the following response to the epidemic.

Firstly, reinforce digital construction and create procedures and processes of system-wide information sharing. On the one side, Coco-Cola ought to move forward supply chain administration to maintain the supply of brands and products as much as conceivable .On the other side, it captured the changing demands of shoppers and widespread provide online promoting and online sales services during the pandemic.

Furthermore, optimize supply chain methodology. Coke is considering amplifying SKU (Stock Keeping Unit) rationalization method from individual items to the entire brand with the purpose of reduce the rates of product inventory and inventory costs. Beneath this methodology, the assignment of materials and human assets was rearranged and a few brand businesses counting Odwalla juice brand were discontinued to concentrate resources on core brands [8].

Coca-Cola's marketing has been upgraded in the post-epidemic era. On the one hand, it has restarted regional marketing activities to regain consumers' enthusiasm [9]. On the other hand, promote the concept of sharing and environmental protection in the brand, such as the brand concept of hugging and the 2030 plastic reduction commitment, to meet the public and social expectations [10].

5. Conclusion

From the investigation of this paper, it can be seen that Coca-Cola's strategic advantages come from (1) Making full use of its industry pioneer and agile supply chain advantages to seize market opportunities and form outright brand influence. (2) Effectively react to market demand, establish brand synergy advantages, and maintain client devotion. (3) Tie social hot spots and actively undertake social responsibilities to improve brand image. (4) Concentrate on developing in a single industry whereas differentiating the investment layout at the same time, in order to control and disperse market risks.

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The market has demonstrated that Coca-Cola's procedure is effective. Beverage ventures must accumulate development strength in adapting to market demand. Hopefully this article can give reference to beverage enterprises within the period of rapid development.

However, the examination and viewpoint in this paper are based on the analysis of the affect of Coca-Cola's policies and programs within the early arrangement. A few measures will be adjusted after the company steadily recuperates from the impact of COVID-19, which is still worth observing.

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