

STRATEGIC ANALYSIS OF THE COCA-COLA COMPANY

by

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ABSTRACT

This paper performs a strategic analysis of The Coca-Cola Company, 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 400 brands of nonalcoholic beverages. Since Coca-Cola operates in more than 200 countries, more emphasis is given to the Canadian/North American region in this analysis.

The company faces challenges in today's marketplace because of market driven changes, regulatory changes and socio-economic changes. 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 paper emphasizes that the company needs to reduce its dependence on carbonated beverage and diversify its product portfolio into the noncarbonated sector to remain competitive. It is argued that the best way to become a total beverage company is through addressing the key issues identified in this research and eventually moving towards a learning organization.

DEDICATION

I would like to dedicate this effort to my wife Bindu for her unwavering support and to my daughter Deepika for giving up her story time on many occasions throughout the program.

I would also like to dedicate this work to my mother Smt. Nandini Puravankara for all her fervent prayers for my success and all my family for their constant encouragement.

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GLOSSARY

BI	Business Intelligence- Business intelligence is actually an environment in which business users receive data that is reliable, consistent, understandable, easily manipulated and timely.
BPW	Beverage Partners Worldwide- a joint venture between Coca-Cola and Nestle
CAGR	Compound Annual Growth Rate- interest rate at which a given present value would grow to a given future value in a given amount of time.
CCE	Coca Cola Enterprises
CCU	Coca Cola University
CSD	Carbonated Soft Drink- Non alcoholic beverages with carbon dioxide
DMADV	Define, Measure, Analyze, Design, & Validate
DMAIC	Define, Measure, Analyze, Improve & Control
EBP	Enterprise Buyer Professional
FDA	Food and Drug Administration – The United States Food and Drug Administration
FTA	Free Trade Agreement- Often refers to the Canada-U.S. Free Trade Agreement that entered into force on January 1, 1989.
GAAP	Generally Accepted Accounting Principles- he common set of accounting principles, standards and procedures.
HFCS	High Fructose Corn Syrup A clear, highly viscous product of starch hydrolysis, where the glucose thus produced is partially isomerized to fructose.
IBLF	International Business Leaders Forum
KSF	Key Success Factors

NAS	National Academy of Sciences
NLRB	National labour Relations Board
PET	Polyethylene Terephthalate - A plastic material used to make beverage, concentrate, and beverage base containers
RDI	Reference Daily Intake - the dietary reference values that are used on all current US Nutrition Facts labels.
RIM	Records and Information Management
ROA	Return on Assets
ROE	Return On Equity
RONA	Return On Net Assets
RTD	Ready to Drink
SAP	Systems Applications and Products in Data Processing
SEM	Strategic Enterprise Management
BCS	Business Consolidation
BPS	Business Planning and Simulation
SIC	Standard Industrial Classification- Statistics Canada's standardized coding system for grouping businesses engaged in similar types of activity into non-overlapping industry categories.
SWOT	Strength Weakness Opportunities Threats
TCCQS	The Coca Cola Quality System
TTM	Trailing Twelve Month
TQM	Total Quality Management- is an approach to quality management that provides a methodology for achieving business success through coordinated and informed management
YOY	Year over Year

CHAPTER 1: INTRODUCTION

The Coca-Cola Company (Coca-Cola), the worlds 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 recognised successful company. The Coca-Cola story began 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 1990's, Coca-Cola was one of the most respected companies in the world, a master of brand –building and known as a very successful management team. Since 1998, the company has been struggling with issues identified in this analysis (Chapter 4). Observers wonder if Coca-Cola has lost its fizz and if the real thing could ever revive.

The purpose of this paper is to assess the current situation of Coca-Cola and the industry, evaluate the existing resources, suggest a strategy and provide strategic recommendations. A specific strategy will help to match strength and distinctive competence in such a way that Coca-Cola enjoys a competitive advantage over immediate rivals in the industry.

An overview of company background and the soft drink industry is outlined in Chapter 1. Chapter 2 provides an external analysis of the soft drink industry. My intention for this chapter is to identify the key success factors, analyse the

emerging trends in the industry and assess the industry attractiveness of the soft drink industry.

Chapter 3 is an internal analysis-strategic fit analysis of Coca-Cola, where I examine the concepts of firm capabilities and provide an internal analysis of strengths and weaknesses at Coca-Cola. Chapter 4 is an internal analysis- value chain analysis, where I describe all the activities that make up the economic performance and the capabilities of Coca-Cola.

Issues affecting the company are described and developed in Chapter 5. Strategic recommendations to address the company's specific issues are presented in Chapter 5 within the broad context of the suggested overall strategy. The recommendations make sense if one starts with a scrutiny of the company background. I also highlight my interest in the Canadian aspects of Coca-Cola.

1.1 Company Background

The Coca-Cola Company manufactures, distributes and markets nonalcoholic beverage concentrates and syrups. Coca-Cola owns or licenses more than 400 brands, including diet and light beverages, waters, juice and juice drinks, teas, coffees, sports and energy drinks. It has ownership interests in numerous bottling and canning operations. Coca-Cola sells finished beverage products bearing the Coca-Cola trademarks in more than 200 countries. As December 31, 2006, Coca-Cola operated through eight segments: Africa; East, South Asia and Pacific Rim; European Union; Latin America; North America;

North Asia, Eurasia and Middle East; Bottling Investments and Corporate (The Coca Cola Company, 2006).

The activities of Coca-Cola straddle all sectors of the soft drink industry: in worldwide trade in 2004 it led in volume and value the carbonates, fruit/vegetable juice and Ready to Drink (RTD), coffee sectors. It was the second leading player in the world in functional drinks and Asian speciality drinks. It was number three in bottled water. With regard to concentrates, Coca-Cola held second place in volume and ranked third in the world in value terms. In RTD tea, Coca-Cola ranked number one in value and number three in volume terms (Euromonitor International, 2005).

1.2 Financial Performance

Coca-Cola grew turnover by approximately 4 percent in 2006. In the same year it reached nearly US\$24 billion. The company generated 73 percent of the revenue from locations outside the company's domestic US market. The shift towards foreign markets as a financial concern is likely to continue.

Recent growth has been chiefly in the form of brand extensions and an ever-expanding distribution network. However, at a global level, stagnation in carbonates has affected volume growth for Coca-Cola. Volume growth in terms of cases grew by only 2 percent in 2006, and remained stagnant in the key North American and Europe, Eurasia and Middle East markets (The Coca Cola Company, 2006). This slow down in carbonates has impacted some investors' perception of the future financial growth potential of the firm.

1.3 Geographic Coverage

The geographic coverage of Coca-Cola is the best in the world – it is hard to think of a brand that has achieved such massive levels of penetration and recognition (See Fig 1.1: Illustrates the operating segments of International Operations). International operations contributed 73 percent of 2006's sales and 74 percent of operating income in 2006 (The Coca Cola Company, 2006).

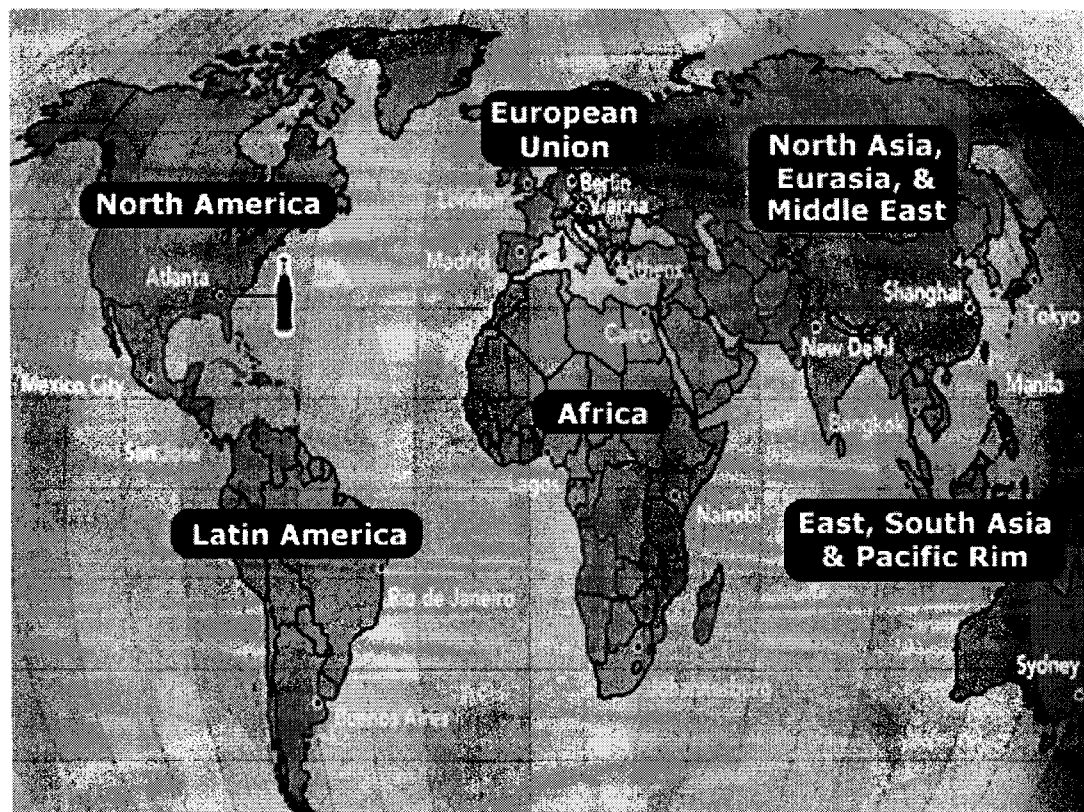


Figure 1:1 Geographic coverage of Coca- Cola

1.4 Organisational Structure

In 2001, Coca-Cola restructured its geographical operating segments and renamed them at the same time. North America (including The Minute Maid Company) now includes Puerto Rico, added from Latin America. Europe and

Eurasia changed their names to Europe, Eurasia & Middle East. At the same time, Africa & Middle East, excluding the reclassified Middle East segment, changed their names to Africa. Figure 1.2 summarizes the organisational structure of Coca-Cola.

During the first quarter of 2001, Asia Pacific was renamed Asia. In 2002, Egypt was reclassified from Europe, Eurasia & Middle East to Africa. In 2004, Coca-Cola reclassified certain departments from the North American operating segment to the corporate operating segment.

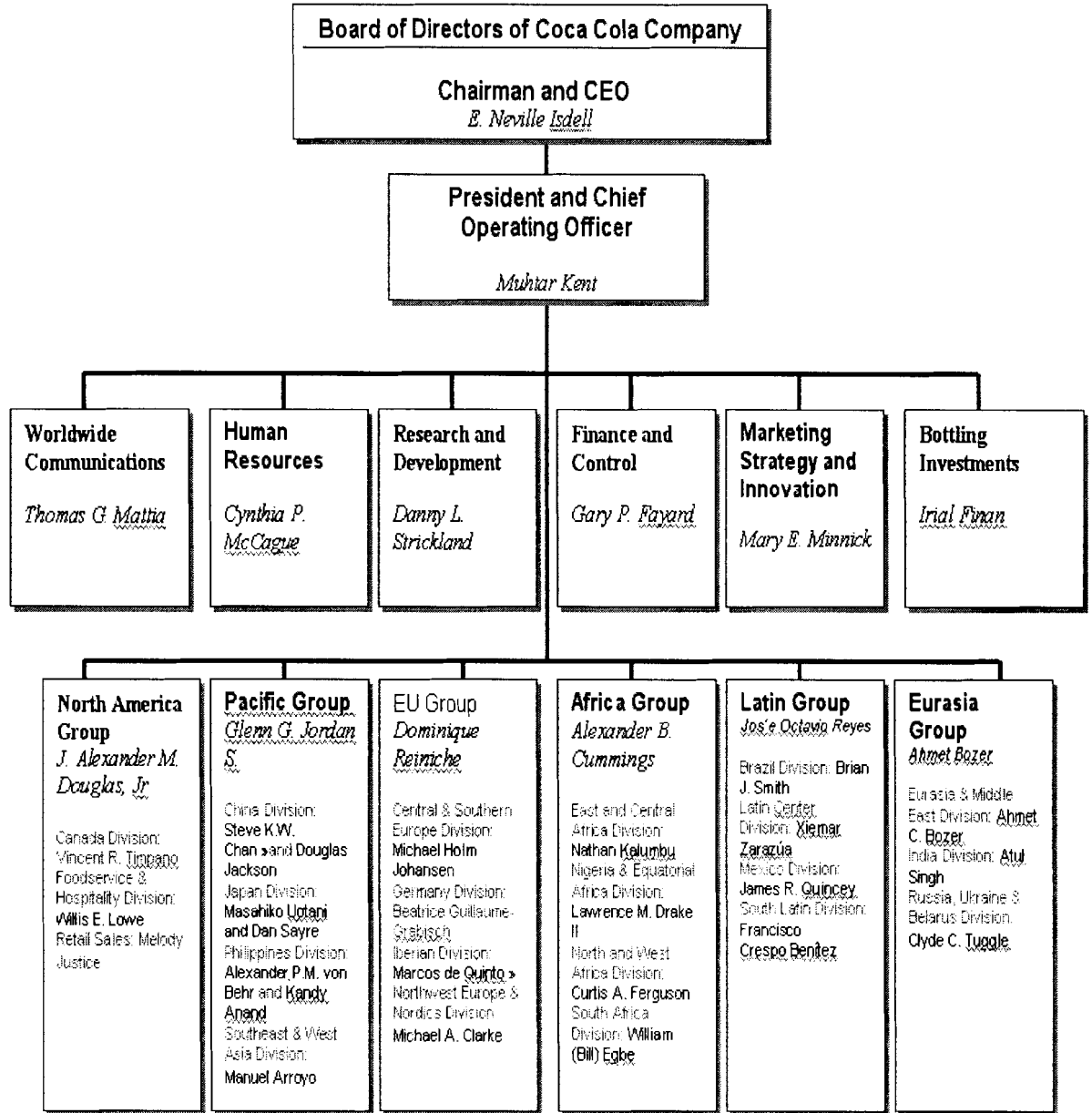
In March 2007, Coca-Cola reorganized its North American business to better reflect its strategic focus, creating three new business units for its sodas and other beverages. In a note to employees, Coke North America President Sandy Douglas said the new operating model would enable Coca-Cola "to transform our business and win in the marketplace." The three business units -- sparkling beverages, still beverages and emerging brands will define Coca-Cola's focus in the North American market, where it faces stiff competition from rival PepsiCo Inc and makers of healthier beverages such as juices.

1.5 Company History

The "Coca-Cola" trademark was registered in 1893, although it was seven years earlier that pharmacist Dr John Styth Pemberton created fragrant caramel coloured syrup that went on sale as a soda fountain drink in Atlanta, Georgia. Large-scale bottling began in 1894, after the rights to bottle and sell Coca-Cola across most of the US were sold for just US\$1.

Figure 1:2 Organizational Structure of Coca-Cola

Fig 1.2 Organizational Structure of Coca-Cola



In 1923, Fanta became the first soft drink other than Coca-Cola marketed by the company, and in the same year Coca-Cola extended into fruit juices and concentrates with the acquisition of the Minute Maid Corporation. This added frozen citrus concentrates and other drinks, along with the brands Minute Maid and Hi-C to its growing portfolio.

1.6 The Contemporary Coca Cola Company

Fast-forward 112 years, to April 2005, when Coca-Cola, alongside its subsidiary, Coca-Cola Hellenic Bottling Company, agreed to a deal with Russia's Multon juice company. Multon owns local Rich, Nico and Dobry brands. It is a market leader in the Russian fruit/vegetable juice category with a 22.9 percent volume share in 2004.

In March 2007, Coca-Cola acquired all Fuze Beverage brands, including the Vitalize, Refresh, Tea and Slenderize lines for an undisclosed price. The restructuring and realignment of Coca-Cola in recent years has slightly reduced the company's heavy reliance on carbonates, although these still account for some 83 percent of global volume. At the same time the acquisitions provide dominant positions in faster-growing beverage sectors such as bottled water, RTD tea and coffee and functional drinks.

1.7 Strategic Issues

Coca-Cola faces several significant strategic issues. I will enlarge upon this discussion in Chapter 4. Three primary strategic issues are of importance. The first is the declining sales in the carbonated soft drink sector. The second is

the current health and wellness trend sweeping across the beverage industry. The third issue is the threat of increased competition from PepsiCo. The other strategic issues the company faces include increasing conflict with the bottlers, lack of innovation and food safety and statutory regulatory compliance.

1.8 An Overview of the Canadian Soft Drink Industry

The goal of this section is to understand the Canadian soft drink Industry in relation to the North American soft drink industry.

The Canadian soft drink industry, with more than 20 bottling plants, has an annual payroll exceeding \$360 million. Modern bottling plants can produce more than 2,000 soft drinks per minute on each line of operation. The industry employs more than 8,000 Canadians directly, and an additional 30,000 people indirectly in support industries. Soft drinks represent about one third of the \$4.4 billion worth of beverages Canadians purchase in supermarkets each year. This section will briefly look into the category from a Canadian perspective, economics of the soft drink industry in Canada and change drivers in the Canadian soft drink industry. Finally, a brief outlook of Coca-Cola Canada is given at the end of the section that will lead to the external analysis of the soft drink industry.

1.8.1 Definition of Category

In Canada, the soft drink industry (SIC 111) consists of establishments primarily engaged in manufacturing nonalcoholic, carbonated beverages, mineral waters and concentrates and syrups for the manufacture of carbonated beverages. Establishments primarily engaged in manufacturing fruit juices and

noncarbonated fruit drinks are classified in the Canned and Preserved Fruit and Vegetable Industry (SIC 1031) (HRDSC, 2001).

Principal activities and products in this industry are:

Aerated waters;

Carbonated beverages;

Mineral and spring waters;

Soft drink concentrates and syrup; and

Soft drink preparation carbonating.

1.8.2 Coca-Cola Canada

Coca-Cola Canada continues to provide quality beverages 100 years after the leading brand was introduced to Canadians. From the early days of horse and cart deliveries, Coca-Cola Canada now has the largest fleet of trucks and vehicles nationwide. Coca-Cola Canada has built a reputation for understanding the unique aspects of the Canadian marketplace and developing marketing customer campaigns that respond to these different opportunities. The Coca-Cola Bottling Company produces, sells and distributes nonalcoholic beverages and operates in all ten provinces, employing approximately 5500 Canadians. Coca-Cola Ltd represents The Coca Cola Company in Canada and provides research, marketing and advertising leadership as well as quality assurance support to the bottling plants.

Starting with a single 3,800 square foot bottling plant in Toronto in 1905, operations have since expanded such that the company is operating in all provinces with local distributors in every territory. Most recently, Coca-Cola Bottling Company completed a \$150 million investment in a state-of-the-art 630,000 square foot production and distribution centre in Brampton, Ontario. Over many years, and many more years in the future, Coca-Cola Canada's goal will be to provide a moment of refreshment for thirsty Canadians- one customer and one consumer at a time.

Coca-Cola Canada is also affiliated with numerous local and national sporting events. Coca-Cola Canada was proud to participate as an official sponsor for the 1976 Summer Olympic Games in Montreal, Quebec and 1988 Winter Olympic Games held in Calgary, Alberta. To officially start Vancouver's journey to the 2010 Winter Olympic Games, Coca-Cola Ltd. introduced a commemorative can in western Canada. The 'Celebrating the Beginning' Vancouver 2010 cans featured a graphic of a downhill skier coasting down the trademark Coca-Cola wave. As an Olympic worldwide partner, Coca-Cola Canada wanted to mark this significant occasion and help its western customers get into the Olympic spirit.

1.8.3 Economics of the Canadian Soft Drink Industry

The Canadian soft drinks market generated a total revenue of \$6.1 billion in 2005, this representing a compound annual growth rate (CAGR) of 2.5 percent for the five-year period spanning 2001-2005. Market consumption volume increased with a CAGR of 0.5 percent in the same period, to reach 5402.7 million

litres in 2005. Canadians consumed an average of 55.1 litres of soft drinks in 1972, and the consumption grew by an average of 2 percent per year over the next three decades. Fuelling this phenomenal growth were the increasing availability of soft drinks and the introduction of diet and flavoured varieties of soft drinks.

In 2005, Canadians consumed 107 litres of soft drink per year (Statistics Canada, 2007). Carbonates sales proved the most lucrative for the Canadian soft drinks market in 2005, generating a total revenue of \$2.9 billion, equivalent to 47.8 percent of the markets overall value. Juice sales generated a total revenue of 1.25 billion, equivalent to 20.5 percent of the market's overall value.

At this rate the performance of the market will drive the market to a value of \$7 billion by the end of 2010. The market volume is likely to rise to 5513 million litres by the end of 2010. Ironically, Canada contributes just 4.5 percent of the value of the American soft drinks market, whereas the United States generates 79.4 percent of the value of the market. The production and distribution of soft drink involved four major participants: concentrate producers, bottlers, retail channels and suppliers (Datamonitor, 2006).

The three major players- PepsiCo, Coca-Cola and Cadbury Schweppes dominate the Canadian soft drink market. The market leader PepsiCo holds 35.1 percent share by volume followed by Coca Cola (26.5%) and Cadbury Schweppes (7.6%). The primary distribution channel in the Canadian soft drink

market is Supermarket and Hypermarket (48.9%) outlets followed by On-Trade (16.3%) and Independent Retailers (7.4%) (Datamonitor,2006).

1.8.4 Change Drivers of the Canadian Soft Drink Industry

“Change Drivers” are those large-scale factors that produce change at lower levels of system organization. Typically, these change drivers consist of global, demographic, economic, technological, information, and other factors that create a changing environment to which organizations must adapt. This section will briefly describe the change drivers in the Canadian soft drink industry such as economic/market driven changes, regulatory changes and socio-economic changes.

1.8.4.1 Economic/Market driven changes

Rationalization of the soft drink industry on a North American basis cut the number of establishments in this industry in half between 1986 and 1993. Private label products have made inroads into the market share of the major brands. The industry experienced intense price competition with expansion of private label sales. There was an overall decrease in retail prices between 1988 and 1997. Remaining establishments are typically very efficient (HRDSC, 2001).

1.8.4.2 Regulatory issue and changes

The soft drink industry was historically based on a franchise system, which characterized the soft drink industry worldwide. The system provided a soft drink bottler with a defined market area and exclusive manufacturing and distribution rights within that area. The bottler was restricted to purchasing the proprietary

formula concentrates and/or syrups from a single source - the franchise company (franchisor) that held the registered trademarks of a number of soft drink brands. The franchiser established pricing policies and provided overall marketing and brand promotion support. Coca-Cola System is still organized on a franchise basis and has one of the largest trademark licensing program in the world.

The Canadian soft drink industry has undergone significant changes during the last decade. The changes include the adoption of the Canada-United States Free Trade Agreement (FTA), the shift to Polyethylene Terephthalate (PET) plastic bottles and metal cans, consolidation in both the brand holding and bottling functions in the industry and the adoption of high fructose corn syrup (HFCS) as an alternative sweetener in place of sugar in nondiet soft drinks.

Deposit laws and other measures to ensure recycling and reuse of beverage containers are perhaps the most significant regulatory concern of the industry.

Requirements under food labelling of ingredients and nutritional information continue to be under review and subject to change. Canadian food and beverage manufacturers argue that one of the challenges facing their industry is the lack of harmonization between Canada and the United States on certain food ingredients and labelling regulations.

All soft drink manufacturers in Canada must meet the standards of quality, hygiene and safety established by both Health Canada and the corporations which own the brand names.

Health Canada, which is the regulatory agency responsible for the development of food labelling policy, is currently examining, in consultation with other stakeholders including industry, several food labelling issues including health claims, nutrient content claims, nutrition labelling and food fortification. Regarding food fortification, one of the questions under review is whether foods that do not fit into traditional food groups (i.e., soft drinks, savoury snacks, confections, etc.) should be considered as a vehicle for food fortification.

Although there are no customs duties and sales taxes on finished products, with the implementation of the Canada-US Free Trade Agreement, the largest soft drink companies tend not to ship finished product across the Canada-U.S. border because of differences in ingredient and labelling regulations. In the U.S., many noncolas contain caffeine, which is not allowed in such drinks in Canada. Another ingredient, saccharine, is banned in Canada in soft drink usage. As well, Canada has metric and bilingual labelling requirements.

At the same time, governments are streamlining food inspection systems, reducing direct inspection while requiring documentation of food safety systems by companies (HRDSC, 2001).

1.8.4.3 Social and Economic changes

In 2005, the average Canadian consumed 107 litres of soft drinks. On average, Atlantic Canadians consume the most soft drinks while the lowest consumption rate is in British Columbia. Canadians buy more than 50 per cent of their soft drinks through grocery stores. Consumers will continue to demand high-quality products through the marketed goods sector. In Canada, about 20 to 25

per cent of soft drinks sold are diet drinks; most soft drinks sold are regular (nondiet) products. Although retail concentration has increased over the years, soft drink manufacturers enjoy a wider variety of distribution channels than some processed food and beverage products.

The industry distributes its products through supermarkets and grocery stores, drug stores, convenience stores and gas outlets, mass merchandisers and warehouse outlets. The foodservice and hospitality industry, in particular fast food outlets, is another method of distribution. Vending machines also provide a distribution channel for these products. Consumers of soft drink products have a great assortment of flavours from which to choose. Over 25 major brands and over 200 flavours of soft drinks are distributed throughout Canada.

The majority of soft drinks are sold in aluminium cans and PET plastic bottles. They are also sold in bulk through soda fountains. Bottles, most of which comprise PET plastic, account for 41.5 percent of sales, cans make up 41.6 percent, and fountain sales account for 16.9 per cent of sales. Only a very small portion of soft drinks are still packaged in glass bottles, due in part to the late 1970s problem of exploding glass bottles with contents under pressure as well as changing consumer preferences and lifestyles (HRDSC, 2001).

The first part of this chapter briefly introduced the background and structure of Coca-Cola, financial performance and some of the strategic issues the company is facing in the current environment. The second dealt with the overview, economics and change drivers in the Canadian soft drink industry. Since Coca-Cola operates in more than 200 countries, more emphasis is given to

the Canadian/North American region in this analysis. Having explained the details about the Company and the soft drink industry. I will move on to the external analysis of the soft drink industry in Chapter 2. The external environment represents all external forces, factors, or conditions that exert some degree of impact on strategies, decisions, and actions taken by the company. Next chapter focuses on the task of external analysis of soft drink industry and its role in strategy formulation.

CHAPTER 2: EXTERNAL ANALYSIS OF THE SOFT DRINK INDUSTRY

The competitive state of an industry is a key factor in determining how firms develop their strategies to earn profit over time. Even though the nature of competition differs significantly between industries, competition in the soft drink industry is determined by its own particular structure. Industry structure refers to the interrelationship among the five forces presented by Porter (1980), described in detail in this chapter, that drive behaviour of firms competing in that industry. Furthermore an attempt is made to explore the emerging trends in the soft drink industry, identify the key success factors, evaluate industry attractiveness and identify opportunities and threats (SWOT analysis) the company is facing in its current environment.

2.1 Introduction to Porter's Five Force analysis

One of the earliest models used to examine industry economics and industry attractiveness is Michael Porter's Five Force Model (Porter, 1980). 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 weaker the forces, the greater the opportunity for superior performance by firms within the industry. Firms that satisfy the Key Success factors (KSF) best usually achieve better performance.

2.1.1 Threat of new entrants-Low

New entrants to the industry are not a strong competitive pressure in the soft drink industry. Coca-Cola and PepsiCo dominate with their strong brand name and superior distribution channels. In addition, the soft-drink industry is fully saturated. New growth is small. This makes it very difficult for new, unknown entrants to start competing against the existing established firms. Another barrier to entry is the high fixed costs for warehouses, trucks, and labour and economies of scale. New entrants cannot compete on price without economies of scale. These high capital requirements and market saturation make it extremely difficult for companies to enter the soft drink industry; therefore new entrants are not a strong competitive force.

The overall KSF identified from the threat of new entrants are size, price, brand image, distribution and global presence.

2.1.2 Threat of Substitutes-Very Strong

Substitutes for Coca-Cola products are bottled water, sports drinks, coffee, and tea. Bottled water and sports drinks are increasingly popular with the trend towards the health conscious consumer. This trend is epitomized in the beverage consumption pattern of the ageing baby boomers.

There are a growing number and varieties of water and sports drinks that appeal to different consumers' tastes. These are advertised as healthier than soft drinks. In addition, coffee and tea are competitive substitutes because they provide caffeine. Soft drinks can be substituted with coffee. Specialty blend coffees are also becoming more popular with the increasing number of Starbucks

stores that offer many different flavors to appeal to all consumer markets. Low switching costs for the consumer makes the threat of substitute products very strong (Datamonitor, 2005).

The overall KSF identified for threat of substitutes are quality and innovation.

2.1.3 Threat of Suppliers-Strong

Suppliers to Coca-Cola are bottling equipment manufacturers and secondary packaging suppliers. Although Coca-Cola does not do any bottling, the company owns about 36 percent of Coca-Cola Enterprises. The rest of the Coca-Cola Enterprises is a publicly traded company. This is the largest bottler in the world (The Coca Cola Company 2006). Since Coca-Cola owns the majority of the bottler, it looks like that particular supplier does not hold much bargaining power. However, there has been increased concern about the simmering tensions between Coca-Cola and its increasing powerful independent bottlers such as Coca-Cola Enterprises. Coca-Cola Enterprises controls 80 percent of the US market as well as parts of Europe. Coca-Cola is introducing new product at a significant rate. The operational and distributional complexity due to new product introduction is affecting the bottom line of the bottlers. Some bottlers have even refused to carry new products. The conflict with the bottlers can be a major threat to Coca-Cola.

In terms of equipment manufacturers, the suppliers are generally providing the same products. The number of equipment suppliers is not in short

supply, so it is fairly easy for a company to switch suppliers. This takes away much of the suppliers' bargaining power. However, rising sugar and packaging material prices have a direct impact on the profitability of the Coca-Cola's products.

The overall KSF identified for threat of suppliers are size and global presence.

2.1.4 Bargaining power of Buyers-High

The buyers of Coca-Cola and other soft drinks are mainly large grocers, discount stores, and restaurants. The soft drink companies distribute the beverages to these stores for resale to the consumer. The bargaining power of the buyers is very evident and strong. Large grocers and discount stores buy large volumes of the soft drinks, allowing them to buy at lower prices. Restaurants have less bargaining power because they do not order in large volume. However, with the number of people drinking less soft drink, the bargaining power of buyers could start increasing due to decreasing buyer demand. The interesting shift in buyer demand because of increased demand for healthy choices has driven the market share of substitute drinks. Consumers are focusing more on healthy choices and buying healthy drinks from "high end-speciality stores. This phenomenon is due to health and wellness trend sweeping across the global beverage market. Soft drink consumers are moving their consumption from regular cola carbonates to low-calorie carbonates, bottled water, sport drinks, juice and teas. Coca-Cola should adapt to this consumer behaviour for future growth.

The overall KSF identified for bargaining power of buyers are size, healthy choices and global presence.

2.1.5 Competitive rivalry-High

The competitive pressure from rival sellers is the greatest competition that Coca-Cola faces in the soft drink industry. Coca-Cola, PepsiCo., and Cadbury Schweppes are the largest competitors in this industry with global presence. Though Coca-Cola owns four of the top five soft drink brands (Coca-Cola, Diet Coke, Fanta, and Sprite), it had lower sales in 2006 than did PepsiCo. However, Coca-Cola has higher sales in the global market than PepsiCo. In 2006, PepsiCo dominated North America with sales of \$22 billion, whereas Coca-Cola only had about \$7 billion, with more of their sales coming from overseas. PepsiCo is the main competitor for Coca-Cola and these two brands have been in a power struggle for more than a century.

Brand name loyalty is another competitive pressure. The Brand Keys' Customer Loyalty Leaders Survey (Brand Loyalty, 2006) shows the brands with the greatest customer loyalty in all industries. Diet Pepsi ranked 18th and Diet Coke ranked 47th as having the most loyal customers to their brands

The overall KSF identified for the competitive rivalry are size, global presence and brand image.

Porter's Five Forces Model identifies the five forces of competition for any company. The recognition of the strength of these forces helps to see where Coca-Cola stands in the industry. Of the five forces, rivalry within the soft drink

industry, especially from PepsiCo, is the greatest source of competition for Coca-Cola.

2.2 Emerging trends in the soft drink industry-Industry Analysis

2.2.1 Merger & acquisition

The soft drink industry is a mature industry that will lead to change. The entry/exit of major firms is a trend in the industry that will also likely lead to change. More specifically, merger and consolidation have been prevalent in the soft drinks market. Several leading companies have been looking to drive revenue growth and improve market share through the increased economies of scale found through mergers and acquisitions. One specific example is how PepsiCo acquired Quaker Oats, who in turn bought Gatorade. That will help expand PepsiCo's energy drink sector (Datamonitor, 2005). This is a great opportunity Coca-Cola missed as the first-mover in the energy drink sector.

2.2.2 Globalization

With the growing use of the Internet and other electronic technologies, global communication is rapidly increasing. This is allowing firms to collaborate within the country market and expand into world markets. It has driven competition greatly as companies strive to be first-movers. Specifically, the global soft drink market's compound annual growth rate (CAGR) is expected to expand to 3.6 percent from 2004 to 2009 (Datamonitor, 2005).

2.2.3 Lifestyle

Changing societal concerns, attitudes, and lifestyles are important trends. In the United States and Europe, people are becoming more concerned with a healthy lifestyle. “Consumer awareness of health problems arising from obesity and inactive lifestyles represent a serious risk to the carbonated drinks sector” (Datamonitor, 2005). The trend is causing change. Coca-Cola is differentiating its products in order to increase sales in a stagnant market.

2.2.4 Long-term industry growth rate

Since 2000, the CAGR is 1.5 per cent (Datamonitor, 2005). The low growth rates are of concern for soft drink companies, and Coca-Cola is creating new strategies to combat the low rates.

2.2.5 Buyer preferences

Because soft drinks have been around since as early as 1798 (American Beverage Association, 2005), buyers want innovation with the products they buy. The key for Coca-Cola’s success is differentiation.

2.2.6 Innovation

Product innovation is necessary to combat buyer’s search and desire for a variety of beverage varieties. Coca-Cola is already differentiating by taste. Recent additions to Coca-Cola’s product portfolio include regular Coke Zero, C2, Fresca, Diet Cherry Coke, Cherry Coke, Vanilla Coke, Coca-Cola with Lime, Coca-Cola with lemon and many more.

2.3 Summary of Key Success Factors (KSF)

Key factors for competitive success within the soft drink industry derived from the Porter's five force analysis and industry analysis are as follows:

2.3.1 Product Innovation

Primarily, constant product innovation is imperative. Coca-Cola must be able to recognize consumer wants and needs, while maintaining the ability to adjust with the changing market. Coca-Cola must keep up with the changing trends.

2.3.2 Size

Large distributors have the ability to negotiate with stadiums, universities and school systems, making them the exclusive supplier for a specified period of time. Additionally, they have the ability to commit to mass purchases that significantly lower their costs. Coca-Cola must implement effective distribution channels to remain competitive.

2.3.3 Quality

Quality of the product is also a key factor for success. In technical usage, quality can have two meanings:

1. The characteristics of a product or service that bear on its ability to satisfy stated or implied needs.
2. A product or service free of deficiencies.

The Coca-Cola Quality System is a worldwide initiative involving every aspect of the business. Everyone who works for or with Coca-Cola is empowered and expected to maintain the highest standards of quality in products, processes and relationships

2.3.4 Brand Image

Established brand loyalty is a large aspect of the soft drink industry. Many consumers of carbonated beverages are extremely dedicated to a particular product, and rarely purchase other varieties. This stresses the importance of developing and maintaining a superior brand image.

2.3.5 Price

Price is also a key factor because consumers without a strong brand preference will select the product with the most competitive price.

2.3.6 Global Presence

Global presence through expansion is a vital factor in the success of a company within the soft drink industry. The United States has reached relative market saturation, requiring movement into the global industry to maintain growth (Datamonitor, 2005).

2.3.6 Distribution

Superior distribution channel is a key success factor because it enables the company to move the products from the manufacturer to the consumer efficiently.

2.3.6 Healthy Choices (Product Differentiation)

Healthy choices or product differentiation will be a source of competitive advantage for a beverage manufacturer. Coca-Cola should produce beverage that has unique and valuable characteristics for certain market segment like health conscious consumers.

2.4 Industry attractiveness

Market size, growth rate and overall profitability are three economic indicators that can be used to evaluate the soft drink industry. The market size of this industry has been changing. Soft drink consumption has a market share of 46.8 percent within the nonalcoholic drink industry. Datamonitor (2005) also found that the total market value of soft drinks reached \$307.2 billion in 2004 with a market value forecast of \$367.1 billion in 2009. Further, the 2004 soft drink volume was 325,367.2 million liters. The soft drink industry is lucrative with a potential for high profits, but there are several obstacles to overcome in order to capture the market share.

The growth rate has been recently criticized due to the market saturation of soft drinks. This change is attributed to the other growing sectors of the nonalcoholic drink industry including tea and coffee (11.8%) and bottled water (9.3%). Sports drinks and energy drinks are also expected to increase in growth as competitors start adopting new product line.

Profitability in the soft drink industry will remain rather solid, but market saturation, especially in the U.S., has caused analysts to suspect a slight deceleration of growth in the industry (Datamonitor, 2005). Because of this, competitors like PepsiCo are establishing themselves in alternative markets such as the snack, confections, bottled water, and sports drinks industries. In conclusion, the soft drink market is still very attractive with potential for high profits that can be achieved through product diversification.

Coca-Cola should diversify its product offerings to continue to grow and increase profits. Coca-Cola should not bet on revenue growth only from the carbonated beverage sector. To sharpen this point I will turn to a clear examination of Coca-Cola's competitors.

2.5 Analysis of Coca-Cola vs Key competitors

The goal of this section is to assess the performance of three competitors and then evaluate these companies in the context of the Key success factors identified through five force analysis and industry analysis.

The magic quadrant developed by Gartner group was applied to the different competitors in the soft drink industry. The intent of the diagram is to illustrate the position of competitors in the market as measured on two criteria; namely completeness of vision and ability to execute. Based on these two criteria the soft drink industry can be categorized into four quadrants; namely Leaders, Challengers, Visionaries and Niche Players.

Leaders are companies that are reasonably strong in the breadth and depth of their capabilities to deliver on a global basis. Challengers are well positioned to succeed in the market. However, they may be limited to a specific environment. Visionaries are companies that have strong vision for delivering new products. Niche players are those that do well in a specific segment of beverage market such as natural drinks. The competitors were assigned to the magic quadrant based on the above definitions.

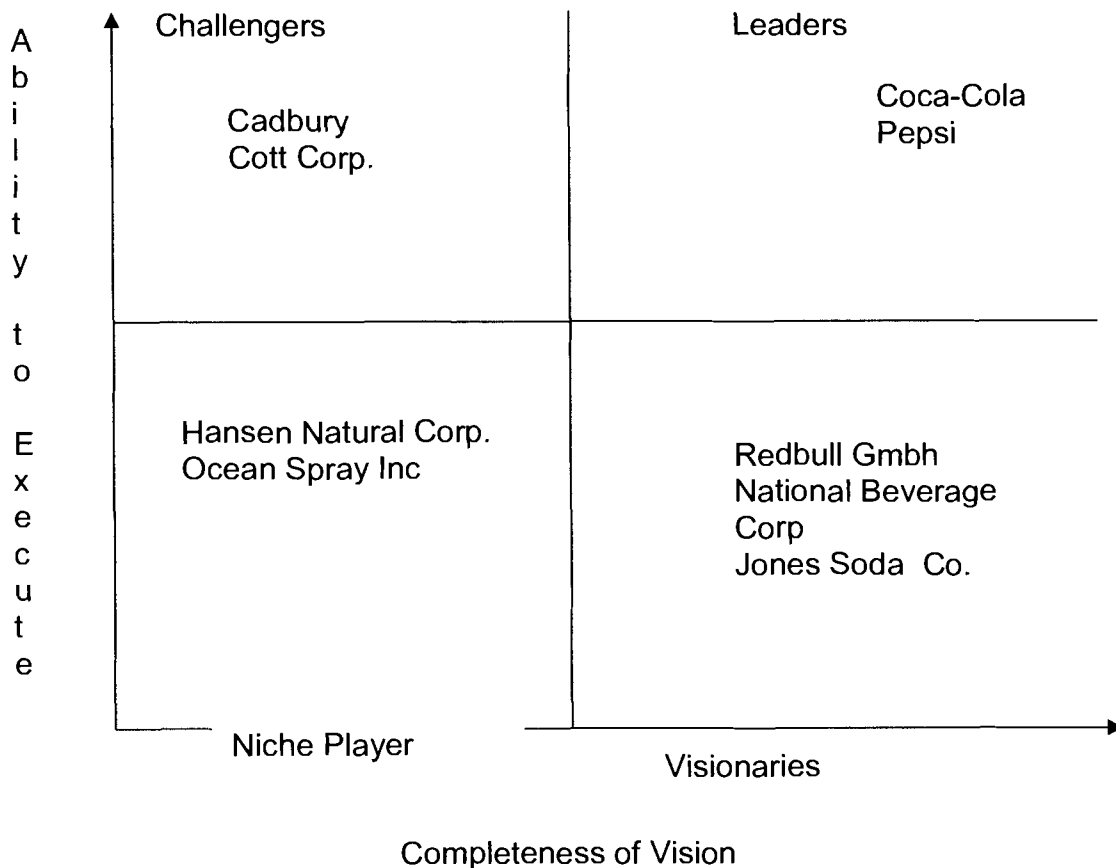


Figure 2:1 Gartner Research: Magic Quadrant

(Source:Gartner Research 2004)

As can be seen in the magic quadrant illustration, Coca-Cola is in the leader quadrant competing directly with PepsiCo. This is an accurate and concise presentation of the strategic challenge facing Coca-Cola. The magic quadrant clearly identifies the short-term requirement to compete with PepsiCo's diversification strategy and the long term need to create a leadership position in product innovation.

Coca-Cola and its key competitors financial analysis is outlined in Table 2.1. From the financial analysis it is clearly evident that low cost strategy is not a good strategy to compete in the soft drink industry. The focus strategy adopted by Cadbury seems to be better than low cost strategy. However, the differentiation strategy seems to be the clear winner in the soft drink industry.

Based on the identified key success factors, Table 2.1 and magic

Table 2-1 Financial analysis of Coca-Cola and its key competitors

Companies	Coca-Cola	PepsiCo	Cadbury	Cott
Symbol	KO	PEP	CSG	COT
Market Cap	111.2 B	103.46B	21.99B	1.04B
Employees	71,000	168,000	58581	3163
Quarterly Revenue Growth(yoy):	6.90%	2.80%	7.80%	0.70%
Revenue (ttm)	24.09 B	35.14 B	14.35B	1.77B
Revenue/Employee (ttm):	\$ 339,268.00	\$ 209,149.00	\$214,645.00	\$560,696.00
Gross Profit (ttm):	15.92B	19.38B	5.89B	216.90M
Gross Margin(ttm):	66.12%	55.14%	14.00%	12.99%

EBITDA (ttm)	7.86 B	8.46 B	2.39B	152.2M
Operating margins (ttm):	26.97%	18.33%	13.24%	3.05%
Net income (ttm):	5.08 B	5.63B	1.02B	-17.50M
EPS(ttm):	2.16	3.34	4.32	-0.24
P/E(ttm)	22.18	18.89	9.81	NA
PEG (5 yr expected)	2.33	1.72	2.01	NA

Source: Figures from Yahoo Finance (2007)

quadrant of current competitive performance, a basic matrix has been developed identifying each firm's capability to deliver against the key success factors.

Table 2-2 Firm's capability to deliver against key success factors

	Company	Coca-Cola	PepsiCo	Cadbury	Cott
	Strategy	Differentiation	Differentiation	Focus	Price
Key Success factors	Weight				
Product Innovation	20%	1.60	1.80	1.50	1.25
Size	20%	1.60	1.60	2.00	1.75
Quality	20%	1.80	1.60	1.40	1.40
Brand Image	10%	0.90	0.80	0.70	0.60
Price	10%	0.70	0.70	0.80	0.90
Global Expansion	10%	0.80	0.70	0.70	0.60
Distribution	5%	0.45	0.45	0.40	0.35
Healthy Choices (Differentiation)	5%	0.35	0.40	0.40	0.35
	(Maximum possible 10)	8.20	8.05	7.90	7.20

An estimated weighted score (See Table 2.2) has been assigned to each firm's ability in the key success factors resulting in a final overall score. The estimated capabilities were drawn from inputs from sample colleagues at Coca-Cola. It is very clear from this analysis that differentiation strategy is the best strategy for Coca-Cola and PepsiCo is also pursuing the same strategy.

However, the focus strategy of Cadbury is also very effective because it is targeting a segment of market looking for a soft drink better than regular colas. The introduction of Seven Up with no preservatives added is an example of Cadbury's strategy to gain a significant increase in sales (14%) in Seven-Up Brand products.

2.6 Opportunities and Threats

2.6.1 Expanding noncarbonated category

Noncarbonated beverages is a dynamic category growing at a very fast pace. The Global noncarbonated drinks market grew by 7.5 percent in 2005. In the first quarter of 2007, PepsiCo reported a volume growth of 8 percent in the noncarbonated beverage sector. Coca-Cola reported a 7 percent increase in its Powerade sport drink and a double digit increase in Minute Maid juice in the first quarter of 2007. It is clear that Coca-Cola should strategically increase its market share in fast-growing segments such as isotonic, enhanced or fortified drinks, new age, energy and juice-based beverages. I will cover this topic more fully in the recommendation discussion in Chapter 5.

2.6.2 Expanding bottled water market

Packaged or bottled water is one of the most dynamic segments of the world's food and beverage market. This rise is due to consumption trends favoring safety and health. The global bottled water sector grew by 8.5 percent in 2005. The segment of water-based, slightly sweetened, refreshment drinks is a

growing market, with revenues of about \$10 billion annually. Flavored water is expected to represent a significant portion of the overall growth of the segment.

Nestle leads the global bottled water market with a market share of 32.5 percent. PepsiCo, with its Aquafina capturing 10 percent share is in second position and Coca-Cola's Dasani brand water is the third best-selling bottled water with 8.5 percent market share. Coca-Cola could leverage its strong position in the bottled water segment to take advantage of growing demand for bottled water.

2.6.3 Growth in emerging market

Russia, China and Brazil are key emerging markets for Coca-Cola. Demand for food and beverages in these countries has increased rapidly in recent years, driven primarily by the economic growth in these countries. Although data are unavailable by country, the unit case volume increased by 11 percent in 2006 for North Asia, Eurasia and Middle East mainly due to growth in China and Russia. Unit case volume increased by 7 percent in Latin America led by Mexico and Brazil.

2.6.4 Strengthen brand image

The Coca-Cola Company uses high-profile sports events to promote its brands. Coca-Cola has been chosen as one of the official sponsors of the 2008 Olympics Games in Beijing, China and 2010 Winter Olympics, in Vancouver, Canada. Coca-Cola has the opportunity to use these two high-profile events to strengthen its brands even further.

2.6.5 Rising raw material prices

Rising sugar and packaging material prices have a direct impact on the cost structure of Coca-Cola's products. With prices of key raw materials increasing, the profitability of the company could come under pressure.

2.6.6 Threat to carbonated beverage category

Consumers have started to look for greater variety in their drinks. They have also become more health conscious. This has led to a decrease in the consumption of soda or carbonated beverages. For example, for the first time in two decades, the number of cases of soda sold in the US dropped to 10.2 billion cases (a 0.7% decline) in 2005. Specifically, the flagship brand Coca-Cola was down 2 percent in volume in 2005.

In recent years, Coca-Cola has been criticized for the high amount of sugar in its carbonated beverages, and has been blamed for contributing to childhood obesity. Coca-Cola's revenues could be adversely affected by a slowdown in the health-conscious carbonated beverages market.

2.6.7 Food Safety Issues

Food safety is going to be a key issue with evolving new products in the soft drink industry. Recently class action lawsuits were filed in Massachusetts and Florida last April 2006. The two lawsuits allege unsafe levels of benzene, a chemical linked to cancer, in certain drinks from beverage manufacturers including Coca-Cola, PepsiCo and Cadbury Schweppes.

Another lawsuit was filed in May 2006 against the company, this time alleging that Coca-Cola products made in Mexico contained lead. The lawsuit claims that elevated levels of lead have been detected in the paint used to decorate the outside of glass Coca-Cola bottles, as well as in the beverage itself.

Recent negative publicity due to high levels of pesticide residue in the carbonated beverages sold in India is another cause for concern. There is a wide negative campaign against using Aspartame as an artificial sweetener in diet drinks because of its health effects. All these food safety concerns could further depress demand for carbonated drinks and adversely impact Coca-Cola's bestseller.

2.6.8 Lack of innovation

Effective innovations, new product introduction, and the ability to respond with agility to changing customer and consumer demands are essential. These must be accomplished through the introduction of new products and formats that are successfully planned and executed.

Coca-Cola has neglected product innovation over the last few years. PepsiCo's better adaptation to consumer health trends recently saw it overtake Coca-Cola in market value for the first time in 112 years. Innovation represents the largest single opportunity to drive profitable growth.

Porter's five force model helped us to assess the fierce competitive environment companies in the soft drink industry operate under and eventually enabled us to determine the key success factors required to be profitable. This

analysis also showed how the five forces interrelate to determine the attractiveness of the soft drink industry.

The findings from the external analysis also helped us to identify opportunities and threats. Now it is time to thoroughly evaluate Coca-Cola's internal capabilities to compete. Chapter 3 mainly focuses on internal analysis to discover how Coca-Cola can perform in ways better than its competitors.

CHAPTER 3: INTERNAL ANALYSIS: STRATEGIC FIT ANALYSIS

In this chapter, I examine the concepts of firm capabilities and provide an internal analysis of strengths and weaknesses at Coca-Cola. Developing effective strategies requires Coca-Cola to understand how its strength and weaknesses may differ from those of its competitors. These differences lay the foundation on which Coca-Cola bases its strategy in the competitive environment.

3.1 Strategic fit

The following figure summarizes Coca-Cola's alignment with two major generic strategies; a cost based and differentiated strategy. The X indicates the position where Coca-Cola is at present and + indicates the position where Coca-Cola should be in future. The arrow indicates the gap between current and future strategic positions.

Table 3-1 Strategy for Coca-Cola

Strategic Fit Chart	Cost Based										Differentiation		
	Low Cost/Adequate Quality	1	2	3	4	5	6	7	8	9		10 High Quality/Adequate Cost	
Product Strategy	Rapid Follower				X							+	Innovative
R&D Expenses	Low R & D			X								+	High R & D
Structure	Centralized				X							+	Decentralized
Decision Making	Less Autonomy					X						+	Autonomy
Manufacturing	Economies of Scale			X									Economies of Scope/Flexible
Labour	Mass Production			X									Highly Skilled/Flexible
Marketing	Comparative Push					X						+	High Cost/Pioneering/Pull
Risk Profile	Low Risk									X			High Risk
Capital Structure	Leveraged					X							Conservative

3.1.1 Current Strategy

To compete in the global beverage market, Coca-Cola uses a differentiation strategy to create value for its customers and consumers. Coca-Cola's mission statement reflects this: "To refresh the world. To inspire moments of optimism. To create value and make a difference" To accomplish this mission Coca-Cola adopts the following strategic growth paths.

1. Grow Core Global Carbonated Soft Drink Brands

Coca-Cola is set to capture the full potential of Trademark Coca-Cola and accelerate growth of core brands in each market through immediate consumption opportunities to improve margin, consumer recruitment, and revenue.

2. Grow Other Core Brands.

This is the profitable noncarbonated market and includes coffee, energy drinks and sports drinks.

3. Develop Transformational Wellness Platforms

Coca-Cola will enter this market with an initial focus on tea, juice, soy, and enhanced hydration platforms.

4. Nurture System Health.

Coca-Cola is implementing a market-by-market focus on System health, including bottler revenue growth, by balancing volume, price, mix, costs, investments and share, concentrate pricing, cost effectiveness and route-to-market efficiencies.

5. Create Customer Value.

Coca-Cola should try to clearly understand what its customers want and need. Understanding customers' expectations can help to target those likely to value what Coca-Cola offers.

6. Create adjacent businesses.

Coca-Cola's initial priority here is the freshly brewed tea and coffee pilot called Far Coast, which was launched in Toronto, Singapore and Oslo. Other opportunities include iCoke (a campaign run by Coca-Cola to promote its online contests), retail concepts within retailers, and technology and ingredient licensing.

The growth strategy looks very promising. However in reality Coca-Cola seems to focus its effort more on the principle of saturating markets with cola. In this era of new age beverages, Coca-Cola was slow to offer bottled water, bypassed a chance to buy Gatorade and missed the chance to acquire the South Beach Beverage Company, the maker of SoBe. As a result, PepsiCo now owns Gatorade and SoBe.

3.1.2 Product Strategy

Coca-Cola practices a high degree of product adaptation and modification across every market it serves. Rapid product testing, and adaptation are the hallmark of Coca-Cola's product strategy. Product testing and development are performed in each individual market, since market research for one country or region is unlikely to show trends that are identical to other markets. Against a backdrop of stagnating carbonates sales, Coca-Cola has significantly stepped up

new product development activity to widen its array of non-fizzy drinks. With increased consumer interest in healthier drinks such as bottled water, fruit juice, energy drinks, and RTD teas and coffees, the company has embarked on an ambitious program of product launches. Some of the recent popular product launches are explained below.

The acquisition of Odwalla was prominent with a number of new products in 2003 including four new juice varieties in the south-eastern US and the blue-coloured Blueberry B Monster fruit juice blend.

In March 2005, Coca-Cola North America introduced Coca-Cola Zero, a new zero-calorie cola. Core brands, such as Coke, Diet Coke, Fanta and Sprite, have not been overlooked and have also been extended with new flavours in an effort to stimulate carbonates sales

In the first quarter of 2005 Coca-Cola North America introduced a new brand extension, Coca-Cola with Lime. The launch of Coca-Cola with Lime follows the roll out one year ago of Diet Coke with Lime, which has become the leading flavoured diet cola in America. Coca-Cola with Lime is supported by an extensive marketing campaign.

A key feature of the new product development programme has been the introduction of beverages to suit local preferences and there is a strong regional bias to the spate of new launches.

In October 2006, Coca-Cola launched the drink proven to burn calories – Enviga. A delicious sparkling green tea containing green tea extracts, calcium,

and caffeine, Enviga was conceived by Beverage Partners Worldwide (BPW) – a joint venture of Nestlé S.A. and Coca-Cola. Enviga contains the optimum blend of green tea extracts, caffeine and naturally active plant micronutrients designed to work with your body to increase calorie burning, thus creating a negative calorie effect. It makes this product stand out as unique. Enviga brings the benefits of green tea to the forefront in a convenient and accessible, great tasting beverage.”

In July 2006, Coca-Cola North America announced the launch of Gold Peak, a premium ready-to-drink (RTD) iced tea. With its fresh homemade taste, Gold Peak revives the timeless flavour of classic, authentic iced tea. Gold Peak is offered in five great flavours – sweetened, unsweetened, lemon, diet and green tea. Gold Peak provides a bottled option for enthusiasts of home-style iced tea.

In April 2007, Minute Maid -- the brand with a tradition of innovation with consumers in mind -- launched a new line of 100 percent orange juice products with health benefits from added nutrients and functional ingredients. The Minute Maid Enhanced Juice line includes new Minute Maid Multi-Vitamin and Minute Maid Active-- as well as new packaging for the popular Minute Maid Heart Wise® variety.

In May 2007, Coca-Cola announced that it has reached an agreement to acquire Energy Brands, Inc., known as glacéau, and its full range of fast-growing, enhanced water brands, including vitamin water. The acquisition, for \$4.1 billion

in cash, provides The Coca-Cola Company with a strong platform to grow its active lifestyle beverages.

In June 2007, Coca Cola launched DASANI Plus vitamin-enhanced flavoured water beverages. The line, with zero calories per serving, comes in three varieties namely, Refresh + Revive, Cleanse + Restore and Defend +Protect. Refresh + Revive is Kiwi Strawberry Flavour and has 10 percent of the reference daily intake (RDI) per serving of Vitamins B3, B6 and B12. Cleanse + Restore is Pomegranate Blackberry Flavour and has 10 percent of the RDI per serving of Vitamins E, B3, B6 and B12, plus 1 gram of fibre. Defend + Protect is Orange Tangerine Flavour and has 10 percent of the RDI per serving of Vitamin E and Zinc.

Independent research shows vitamin-enhanced water is the growth leader in the water category -- larger than the flavoured and sparkling water categories combined. In every U.S. region, vitamin-enhanced water has an 11 percent dollar share of the total water category, providing the highest retailer revenue per case in the overall water category. These factors, along with consumers' evolving health-conscious lifestyles, created the platform for DASANI Plus as the next step for the DASANI brand.

3.1.3 Research and development expenses

The research and development activities principally involve development of new products, increasing the quality of current product portfolio, improvement and modernization of production process and implementation of the latest

technological advances. Coca-Cola R & D expenses are included in the selling, general and administrative expenses, which was \$9,431 million for 2006. Total selling, general and administrative expenses were approximately 8 percent higher in 2006 versus 2005.

The increases in selling and advertising expenses were primarily related to increased investments in marketing activities, including World Cup and Winter Olympics promotions in the European Union, combined with new product innovation activities. Since Mr. Isdell (Chairman and CEO of Coca-Cola) took over, Coca-Cola's research and development budget has more than doubled. Coca-Cola is counting on a state-of-the-art innovation laboratory to deliver new products and packaging to lure customers.

Coca-Cola is committed to maintaining its leadership position in R&D for the beverage industry. I think that Coca-Cola will continue to focus its R&D strategy on maintaining its industry leadership position and continuing to deliver value to the consumers. The value proposition to consumers is the key driver of Coca-Cola's R&D strategy because it is also the fundamental goal of the entire organization.

The core R&D has not changed significantly at Coca-Cola over the past few years. It continues to be driven by the consumer value proposition. The implementation of the strategy has been modified recently to allow more freedom to our local operating divisions. Therefore, there is now more R&D work being performed in the local markets to address consumer needs in each individual

market where Coca-Cola products are available -- currently over 200 countries worldwide.

Coca-Cola does not outsource R&D, but it does work jointly with development partners in many technology areas. Coca-Cola believes joint developments allow the company to leverage its beverage expertise in connection with certain technology areas key to the business, such as packaging and vending equipment.

3.1.4 Structure

Coca-Cola recently (March, 2007) reorganized its North American business to better reflect its strategic focus, creating three new business units for its sodas and other beverages. The three business units -- sparkling beverages, still beverages and emerging brands -- have been created to define Coca-Cola's focus in the North American market, where it faces stiff competition from rival PepsiCo and makers of healthier beverages such as juices.

3.1.5 Decision Making

The Board is elected by the shareowners to oversee their interest in the long-term health and the overall success of the business and its financial strength. The Board serves as the ultimate decision making body of Coca-Cola, except for those matters reserved to or shared with the shareowners. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company.

The Corporate Governance Guidelines, along with the Charters of the each of Board Committees and the key practices of the Board provide the framework for corporate governance at Coca-Cola.

3.1.6 Production

Coca-Cola's core operations consist of Company-owned concentrate and syrup production. The production process at the Coca-Cola Company is depicted in Figure 3.1. The company essentially produces syrups and concentrates and then sells them to authorized bottling and canning operations that package and distribute the final product. Separate contracts, or bottler's agreements, exist between Coca-Cola and each of its bottlers regarding the manufacture and sale of Coca-Cola products.

The Bottler's Agreements authorize the bottler to prepare designated

Manufacturing Process

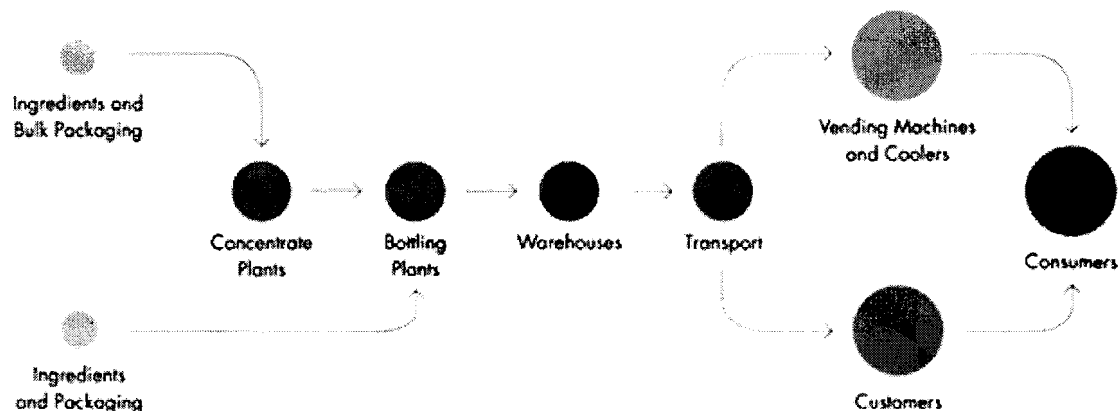


Figure 3:1 Manufacturing process at Coca-Cola

Source: The Coca Cola Company (2006)

Coca-Cola trademark beverages, package the drinks in authorized containers, and then sell the final product in an identified territory. Bottlers are obligated to purchase all of their concentrates and syrups for designated Coca-Cola trademark beverages from the company's authorized suppliers.

Coca-Cola has relationships with three types of bottlers: independently owned bottlers where the company has no ownership interest; bottlers where the company has invested but has a non-controlling ownership interest; and bottlers where the company has invested and has a controlling interest. The company makes investments in selected bottling operations in order to bolster production, distribution and marketing and to simply ensure operations are running smoothly.

While the company bottles and sells a limited amount of Coca-Cola products from company controlled and consolidated bottling operations – 8 percent of the company's 2003 worldwide volume – most Coca-Cola products are produced and distributed by bottling operations not wholly owned by Coca-Cola. This does not mean that the corporation is not intimately involved in the operation of the private bottling firms.

Through bottler's agreements, the company is able to ensure that their products are being produced and distributed properly. The agreements allow the company to exert a certain amount of power and influence over the bottlers.

3.1.7 Labour

Coca Cola believes that their people are the greatest assets. Coca Cola takes a holistic view of all the elements to reward and recognize employees to

ensure a complete, comprehensive package of pay, benefits and learning and development programs.

The 56,000 employees of the company are very vital to Coca-Cola's successes. Coca-Cola recruits, aggressively cultivates a diverse work force and establishes a culture that fosters learning, advancement and value creation on a daily basis. This means maintaining and refining a corporate culture that encourages their people to develop to their fullest potential, which enhances contentment and fulfilment in the company's work environment. Coca-Cola values the uniqueness of all employees.

3.1.8 Marketing

Coca-Cola's marketing objectives are to increase volume, expand worldwide share of nonalcoholic ready-to-drink beverage sales, maximise long-term cash flow and create added shareholder value by improving profit margins. The main strategy adopted to realise these objectives is an investment program in high-margin beverages with marketing programs that include advertising, point-of-sale merchandising and sales promotions. Coca-Cola often uses integrated marketing programs with its bottling partners when creating and implementing brands locally.

In 2001, The Coca-Cola Company embarked on a strategy to redefine itself "as the world's leading marketing and brand-building enterprise", and developments since then have indicated that the company is making every effort to boost sales by homing in on its marketing activities. Its overall strategy is

based upon four key precepts that are underpinned by endeavours to fulfil consumer beverage needs on every occasion and at every stage in their lives- rejuvenation, refreshment, health and nutrition and replenishment.

Rejuvenation is a key precept to this strategy with the increasing popularity of RTD coffee and tea and herbal beverages. Coca-Cola markets this category of drinks on their capacity to improve how people feel physically and mentally. The Beverage Partners Worldwide joint venture with Nestlé focuses strongly on this category.

Refreshment is also key to this strategy as the company's commitment to reminding consumers of the simple pleasure of drinking Coca-Cola at any time, or the "magic" of Coke, as the company preferred to call it during 2001 when it tied in with the much-publicised film Harry Potter and The Sorcerer's Stone that year. Having paid an estimated US\$150 million for the right, The Minute Maid Company collaborated with Warner Brothers Pictures as the sole marketing partner for the first two Harry Potter films and the videos and DVDs that were subsequently released.

Health & Nutrition is important. Coca-Cola marketed juices and juice-based products for some time. However, the increasing demand for health and nutrition drinks has resulted in tightening the focus in this category and particularly the children's sector.

Replenishment is the final precept to the strategy where the key is the tailoring of healthy and convenient replenishment drinks to suit local tastes. In some cases Coca-Cola is concentrating on bottled water, in others the focus is

on flavour and carbonation including performance-orientated high-carbohydrate sports drinks for people with active lifestyles. One example of the marketing strategy underpinning the development of the latter segment was the launch of Powerade in Western Europe, Latin America and China, and relaunch of a reformulated product in the US in 2001, following a similar approach to that undertaken in Japan, where the sports drink has recorded rapid growth in recent years.

In 2005 and beyond Coca-Cola is increasing its investment in marketing and innovation with a permanent annual increase of US\$350-400 million for its brands, which the company calls “the lifeblood of our business”.

Coca-Cola has also exploited new IT technologies to market its products, with the company's UK operation staking a claim to revolutionise the British music industry in 2004 through the introduction of a new legal- and industry-backed solution to the downloading of music from the Internet. The site, www.mycokemusic.com, launched in January 2004, is claimed to have the largest collection of legal downloadable music (a catalogue of over 250,000 new and recent hits from 8,500 artists), as well as a user-friendly interface that makes it simple and easy to use. This continues the UK subsidiary's ongoing relationship with the British music industry, which has included previous initiatives such as the TXT 4 Music, NME and Music 4 You promotions.

Strategically the company is shifting its advertising and promotional focus from global and regional efforts to the local level, especially retailer specific promotions to better align with consumers.

3.1.9 Distribution

Coca-Cola's production and distribution network dates back to 1899 with the founding of the first franchised Coca-Cola bottling company in Chattanooga, Tennessee. Today, Coca-Cola and its bottling partners operate the most extensive beverage distribution system in the world.

The bottlers sell the company's branded products in over 200 countries on six continents to businesses and institutions including retail chains, supermarkets, restaurants, small neighbourhood grocers, sports and entertainment venues and schools and colleges. Coca-Cola continues to expand its marketing presence and increase its unit case volume growth in emerging economies throughout Asia, Africa and Latin America.

3.1.10 Risk Profile

The following seven risk components are on the radar screen at Coca-Cola. The seven are:

1. Water scarcity and poor quality

Water is the main ingredient in virtually all of Coca-Cola's products. It is also a limited resource in many parts of the world, facing unprecedented challenges from overexploitation, increasing pollution and poor management. As demand for water continues to increase around the world and as the quality of available water deteriorates, the Coca-Cola system may incur increasing production costs or face capacity constraints.

2. Changes in the nonalcoholic beverages business

The nonalcoholic beverages business environment is rapidly evolving as a result of, among other things, changes in consumer preferences, including changes based on health and nutrition considerations, obesity concerns, shifting consumer tastes and needs, changes in consumer lifestyles, increased consumer information and competitive product and pricing pressures.

Consumers, public health officials and government officials are becoming increasingly aware of and concerned about the public health consequences associated with obesity, particularly among young people. In addition, press reports indicate that lawyers and consumer advocates have publicly threatened to instigate litigation against companies in the beverage industry, alleging unfair and/or deceptive practices related to contracts to sell sparkling and other beverages in schools. Increasing public awareness about these issues and negative publicity resulting from actual or threatened legal actions may reduce demand for carbonated beverages.

3. Increased competition

The nonalcoholic beverages segment of the commercial beverages industry is highly competitive. Coca-Cola competes with major international beverage companies that operate in multiple geographic areas, as well as numerous firms that are primarily local in operation. In many countries PepsiCo, Inc. is a primary competitor. Other significant competitors include, but are not limited to, Nestle, Cadbury Schweppes plc, Groupe Danone and Kraft Foods Inc.

4. Expansion in developing and emerging markets.

Coca-Cola's success depends in part on its ability to grow the business in developing and emerging markets, which in turn depends on economic and political conditions in those markets and on the ability to acquire or form strategic business alliances with local bottlers and to make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology. Moreover, the supply of beverage products in developing and emerging markets must match customers' demand for those products.

5. Relationship with bottling partners.

Coca-Cola generate a significant portion of net operating revenues by selling concentrates and syrups to bottlers over whom it does not have any ownership interest or non-controlling ownership interest. In 2006, approximately 83 percent of worldwide unit case volume was produced and distributed by bottling partners in which Coca-Cola did not have controlling interests.

If Coca-Cola is unable to provide an appropriate mix of incentives to the bottling partners through a combination of pricing and marketing and advertising support, the bottlers may take actions that, while maximizing their own short-term profits, may be detrimental to Coca-Cola or its brands. Such actions could, in the long run, have an adverse effect on Coca-Cola's success. In addition, disruptions of bottling operations that may be caused by strikes, work stoppages or labour unrest affecting such bottlers, could indirectly affect Coca-Cola.

6.Changes in laws and regulations relating to beverage containers and packaging

Coca-Cola and the bottlers currently offer non-refillable, recyclable containers in the United States and in various other markets around the world. Legal requirements have been enacted in various jurisdictions in the United States and overseas requiring that deposits or certain eco taxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. Other beverage container-related deposit, recycling, eco tax and/or product stewardship proposals have been introduced in various jurisdictions in the United States and overseas.

It is anticipated that similar legislation or regulations may be proposed in the future at local, state and federal levels, both in the United States and elsewhere. If these types of requirements are adopted and implemented on a large scale in any of the major markets in which Coca-Cola operates, they could affect costs or require changes in its distribution model. In addition, container deposit laws, or regulations that impose additional burdens on retailers, could cause a shift away from Coca-Cola's products to retailer-proprietary brands, which could impact the demand for products in the affected markets.

7. Labelling or warning requirements.

Various jurisdictions may seek to adopt significant additional product labelling or warning requirements relating to the chemical content or perceived adverse health consequences of beverage products. These types of requirements, if they become applicable to Coca-Cola's products under current or future environmental or health laws or regulations, may inhibit sales of such products. In California, a law requires that a specific warning appear on any

product that contains a component listed by the state as having been found to cause cancer or birth defects. This law recognizes no generally applicable quantitative thresholds below which a warning is not required. These warning requirements or adverse publicity could affect sales.

3.1.11 Capital Structure

Coca Cola maintains a debt level that is prudent based on cash flows, interest coverage ratio and percentage of debt to capital. Coca-Cola uses debt financing to lower the overall cost of capital, which increases the return on shareowners' equity. As December 31, 2006, Coca-Cola's long-term debt was rated "A+" by Standard & Poor's and "Aa3" by Moody's, and the commercial paper program was rated "A-1" and "P-1" by Standard & Poor's and Moody's, respectively.

Coca-Cola's global presence and strong capital position give access to key financial markets around the world, enabling Coca-Cola to raise funds at a low effective cost. This posture, coupled with active management of a mix of short-term and long-term debt and mix of fixed-rate and variable-rate debt, results in a lower overall cost of borrowing. Coca-Cola's debt management policies, in conjunction with share repurchase programs and investment activity, resulted in current liabilities of \$11,252 million exceeding current assets of \$10,487 million as March 30, 2007. As March 30, 2007 the company's net cash flow amounted \$3,632 million, short-term investment \$3,632 million and accounts receivables \$2,781 million.

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2006, Coca-Cola had \$1,952 million in lines of credit and other short-term credit facilities available, of which approximately \$225 million was outstanding. The outstanding amount of \$225 million was primarily related to international operations.

3.1.12 Overall Assessment of Strategic Fit

Even though the path to growth strategy described in the current strategy is very promising, Coca-Cola has not addressed the bigger-picture issue that 80 percent of its business comes from carbonated soft drinks. Furthermore, carbonated soft drinks became a prime target in many international debates about relationship between soft drink consumption and obesity. Health conscious consumers around the world have started reaching for bottled water and an expanding variety of other noncarbonated drinks that offered new tastes and better nutrition. Competitors like PepsiCo have diversified and taken risks to diversify their product portfolio while Coca-Cola is still struggling to reinvent itself.

In this part of chapter 3, I examined the current strategy, product strategy, research and development expenses, company structure, decision making, production, labour, marketing, distribution, risk profile and capital structure. Coca-Cola has definitely great strength in product strategy, marketing, distribution and capital structure. The key learning again is to focus on the risk profile affecting the performance of Coca-Cola, which will be done in Chapter 5. In chapter 4, I continue the internal analysis with a value chain analysis of Coca-Cola.

CHAPTER 4: VALUE CHAIN ANALYSIS OF COCA-COLA

The value chain describes all the activities that make up the economic performance and the capabilities of Coca-Cola. It portrays activities required to create value for customers. Value chain is an excellent means by which senior management can determine the strength and weaknesses of each activity and compare it with Coca-Cola's competitors.

4.1 Firm Level Value Chain

The following figure (Figure 4-1) summarizes Coca-Cola's value chain by showing both the support and primary activities. Support activities include firm infrastructure, human resources, management, technology development and procurement. Primary activities include sales and marketing, inbound logistics, operation, outbound logistics and service.

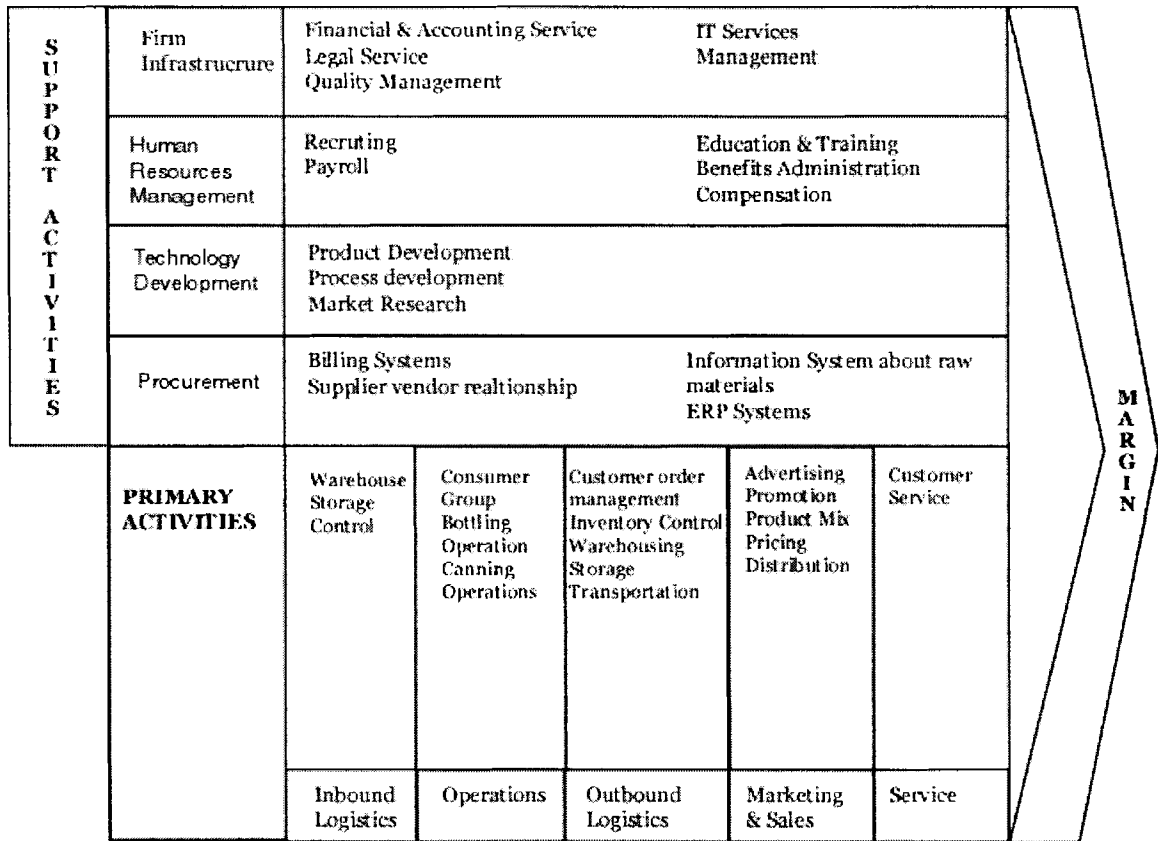
4.2 Firm Infrastructure

The firm infrastructure included finance and accounting, legal services, quality management and IT services.

4.2.1 Finance and accounting

The finance and accounting department has experience in financial accounting, public company disclosures and reporting processes and mergers and acquisitions. This team is responsible for maintaining detailed operating

Figure 4:1 Coca-Cola's value chain, adapted from Porter (1980)



records and preparing financial statements such as income statements, balance sheets and cash flow statements. Given that Coca-Cola is publicly traded on the Dow Jones exchanges, its accounting reports are audited by Ernst and Young LLP and conform to the GAAP.

Running this global business involves a mountain of financial information that must be collected, consolidated, and understood to drive financial reporting, planning, and decision making at the \$20 billion company. As a part of this corporate information strategy, the SAP SEM solutions integrate tightly with the transaction system to consolidate financials, power financial planning, and

provide a comprehensive view of corporate financial performance across the enterprise structure.

Coca-Cola has a single environment for making financial data readily accessible to executive management worldwide. mySAP Financials and mySAP Business Intelligence (BI) solutions provides this environment. Coca-Cola also uses business consolidation and planning, along with data warehousing, to ensure the senior executives can access global consolidated results and planning information based on consistent, accurate data.

Financial actuals are extracted automatically, on a daily basis, primarily from mySAP Financials Controlling (SAP CO). These actual results are then used to assist in the generation of monthly forecasts. This enables Coca-Cola to generate financial reports for financial planners and division and regional financial managers at the profit-centre level. The information is also used to generate monthly forecasts on sales, cost of sales, operating expenses, and profitability. The forecast data is then summarised and passed to SEM-BCS for consolidation.

This enables Coca-Cola to generate consolidated forecast results and comparisons of consolidated actuals to the forecast. mySAP BI Data Warehousing enables Coca-Cola management to further slice-and-dice and analyse this financial information to support decision-making. The solutions are deeply intertwined. The consolidation and planning solutions feed one another data and share the same data, at differing levels of detail. The business

intelligence system works with both to refine information into more value-added form for query, reporting, and analysis.

The SEM-BCS functionality enables Coca-Cola to accelerate corporate accounting by automating the legal and management consolidation process. SEM-BCS creates consolidated financial statements – including balance sheets, income statements, cash-flow statements, and appendices – in order to provide timely information to management and for external reporting.

The SEM-BCS system supports value-based accounting, data collection, validation, currency translation, elimination of inter-unit transactions, and automated generation of consolidation of investments entries, all according to internal procedures and statutory accounting requirements. The consolidation process begins at the end of each month with Coca-Cola collecting actual results, consolidating these results, and then generating the required reports.

A week later, the company collects and generates its forecast results and marketing data. Coca-Cola also devotes part of the monthly cycle to master-data maintenance, such as including new companies. Coca-Cola's 200 global locations use a Web GUI to submit data – information such as P&L statements and balance sheets – via the Company's intranet.

Other activities include a stock option program, financial modelling, credit extensions and collection from customer and investor relation. Financial modelling entails income statement and balance sheet forecasting. The consolidated data provides key baseline information for SEM-BPS, in conjunction with other financial information that is extracted daily from mySAP Financials.

SEM-BPS then provides Coca-Cola with a complete suite of planning functions for modelling, simulation, integrated budgeting, target setting, forecasting, scenario planning, resource allocation, and risk evaluation. This enables the company to perform business planning at the strategic and operational level around all financial issues, like sales, price, cost, headcount, profitability, and financial statements.

Using SEM-BPS, Coca-Cola can now integrate actual data into its planning process for the annual budget and monthly rolling estimates. This is the foundation to be able to use dynamic business-strategy models and analysis and simulation tools to identify the impact of possible actions on the P&L, Balance Sheet, and overall corporate strategy. Investor relations involve responding to calls from investors, preparing investor materials and going to visit various analysts.

4.2.2 Legal Services

The legal department is responsible for drafting, reviewing and interpreting sales and licensing agreements such as non-disclosure statements, contracts, license agreements etc. The role of various groups under the legal department is described below.

The corporate, acquisitions and securities group provides information, advice & counsel with respect to acquisitions, mergers, joint ventures, divestitures, agreements, coordination & management of legal due diligence requirements, as well as, some financing activities and investments In addition,

the group provide legal counsel and advice to management at corporate and field levels on federal state requirements as to securities matters and regulations, including insider trading, executive compensation, share issuance and repurchases, and matters relating to corporate governance

The Customer, Procurement & General Legal Matters group provides a wide range of legal services to the company, its subsidiaries, and business units. Its responsibilities include : (a) drafting and negotiation of agreements with national accounts and other retail customers, sports teams, universities, school districts, and other customers and marketing properties ;(b) counseling regarding pricing, promotions, and marketing, and the impact of antitrust and other laws and regulations on our business; (c) drafting and negotiation of agreements for and general counseling to the Company's Procurement Department; (d) drafting, negotiation, and review of information technology agreements, along with general counseling on I.T. matters; (e) maintaining contracts for bottling franchises and territories in the United States; (f) providing training to company personnel regarding antitrust laws and other laws and regulations; (g) participating in the completion of acquisitions by conducting due diligence and preparing filings required for acquisitions; and (h) managing certain types of commercial litigation involving the company.

The Labor & Employment group provide labor and employment advice to HR at corporate and in all business units, including dealing with individual employee situations, workplace policies, and EEOC and state agency charges of discrimination. This group also manages employment litigation across the

country, working with local business units and outside counsel. Other activities include supporting the labor relations function of the company, providing advice and counsel and backup on the ground help in connection with collective bargaining, union campaigns and other NLRB matters.

The Litigation group coordinates the company's defense in all lawsuits and other legal claims. The litigation team also provides counseling regarding potential claims both against the company and by the company against third-parties.

Records & Information Management is a separate and distinct department within the Legal Department that is responsible for establishing and maintaining Coca-Cola's RIM Program. The RIM Program consists of enterprise-wide policies, procedures, tools, resources, guidance, and strategies that enable Coca-Cola's departments and business units to manage its information as records from creation to disposition in accordance with established laws, regulations and company policies.

The Regulatory Compliance group ensures a compliance conducive environment, a diverse workforce in a safe workplace free from discrimination and harassment. This group ensures that the Company's workforce is compliant with employment laws and government regulations and also provides management and employee training to meet these requirements. In addition, this group develops policies and procedures to ensure compliance.

4.2.3 Quality

Coca-Cola ensures the quality and safety of its beverages through The Coca-Cola Quality System (TCCQS). This system is an integrated approach to managing quality, environment, health and safety. TCCQS is a worldwide initiative involving every aspect of the business. Everyone who works for or with Coca-Cola is empowered and expected to maintain the highest standards of quality in products, processes and relationships. TCCQS mandates in-depth self-assessment throughout operations, by all business units. This enables Coca-Cola to continually raise the standards.

The latest version of the system -Evolution 3, launched in 2004- has been externally benchmarked against international quality standard ISO 9001. It also incorporates the Hazard Analysis Critical Control Point system. Coca-Cola continuously reviews TCCQS to ensure it meets the most stringent and up-to-date global requirements related to food safety, as well as quality management methods, industry best practices and marketplace conditions.

In the ingredient evaluation laboratories, for example, Coca-Cola performs precise analyses of fruit juices and other ingredients from suppliers, to ensure and to improve product quality. The production processes, too, undergo constant scrutiny, to safeguard the water used in the products and the packaging that carries them to the consumers. Coca-Cola informs and educates its business partners about Coca-Cola standards so that they meet the highest quality requirements. Under TCCQS, quality is the highest business objective and enduring obligation.

4.2.4 IT Services

IT services in Coca-Cola range from installing applications to designing computer networks and information databases. Other key services provided by the IT group include data management, database system design, management information systems and system management. Coca-Cola has heavily invested in a SAP-ERP system that provides the following functionality: Financial management, manufacturing and supply chain management, human resource management and materials management.

The scope of the SAP implementation plan was grand: 15,000 users, 45 countries, 175 legal entities and 18 languages. SAP's NetWeaver capabilities will be utilized to get everything integrated on the global scale and to get all of the bottlers to adopt the SAP systems. SAP's NetWeaver platform includes a repository of services that bottlers' in-house development teams and other software vendors can weave together to create processes, such as one that handles procure-to-pay, or the process that begins with procuring raw materials and ends with payment to suppliers.

Coca-Cola, which spends \$1 billion a year on IT for business interactions with its bottlers, believes that commonality will make its supply chain more efficient and reduce costs. Jean-Michel Ares is the CIO who's going to pull all this off. He's got an impressive pedigree—McKinsey, then General Electric, now Coca-Cola. The goal isn't a single ERP instance across all bottlers, but rather common processes for finance, purchasing, manufacturing, sales & distribution, and human resources by means of a common platform.

4.2.5 Management

In the beverage industry, Coca-Cola has a powerful vision that has galvanized the firm's effort in defining the beverage and soft drink industry. Coca-Cola's management wants to make sure that there is "a Coke in arms reach" of any customer, no matter where the customer is around the world. That simple and mighty vision has defined the purpose and its strategy of entering and serving many markets around the world.

An executive leadership team and Board of directors form the management team. There are 14 people on the executive leadership team. The CEO, president and VP represent the areas of marketing, finance, bottling investment and supply chain, public affairs and communication, human resources, innovation and R & D and the six geographic groups.

The board of directors is made up of 10 independent directors and the CEO. The Board is elected by the shareowners to oversee their interest in the long-term health and the overall success of the business and its financial strength. The Board serves as the ultimate decision-making body of the company, except for those matters reserved to or shared with the shareowners.

The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the company. The Board has seven standing committees: Audit, Compensation, Directors and Corporate Governance, Executive, Finance, Management Development, and Public Issues and Diversity Review. The Board may establish additional committees as necessary or appropriate.

The Board will hold regularly scheduled meetings at least five times a year. The Chairman of the Board will set the agenda for Board meetings. Any Director may suggest items for inclusion on the agenda. Any Director may raise a subject that is not on the agenda at any meeting. Certain items pertinent to the oversight and monitoring function of the Board will be brought to the Board regularly. The Board will review the Company's long-term strategic plans and the most significant financial, accounting and risk management issues facing the company during at least one Board meeting each year.

Of the top 150 employees at Coca-Cola, 61 are new to their jobs or the company. Of the 11 current members of the board, eight have served 10 years or longer, and four of those have logged 25 years or more. The average tenure for board members is 16.6 years. The average age of the 11 directors is 68.

Neville Isdell was elected chairman, Board of Directors, and chief executive officer of The Coca-Cola Company on June 1, 2004. Mr. Isdell is the 12th chairman of the Board in the history of the company. A native of Ireland, Mr. Isdell joined The Coca-Cola Company in 1966 with the local bottling company in Zambia. He retired as vice chairman of Coca-Cola HBC in December 2001. His career consisted of capturing and overhauling foreign markets, including South Africa, Australia, Germany, India, the Philippines and the Middle East. From January 2002 to May 2004, Mr. Isdell was an international consultant to The Coca-Cola Company and headed his own investment company in Barbados.

Mr. Isdell is chairman of the U.S.-Russia Business Council and chairman of the board of trustees of the International Business Leaders Forum (IBLF). He

is a member of the board of trustees of the United States Council for International Business and the Center for Strategic and International Studies. Mr. Isdell received a bachelor's degree in social sciences from the University of Cape Town and is a graduate of the Harvard Business School Program for Management Development.

4.3 Human Resource Management

The Human Resource department is responsible for recruiting, training, compensation, payroll, benefits and administration, Organizational Development, Employee Relations and Compliance and Occupational Health.

Coca-Cola takes a holistic view of all the elements to reward and recognize employees to ensure a complete, comprehensive package of pay, benefits and learning and development programs, including Coca-Cola University—all designed to unleash the employee's full potential.

Coca-Cola University (CCU) is a virtual global university representing a one-stop shop for all learning and capability building activities across The Coca-Cola Company. CCU aims to provide experiences that equip people with practical skills and knowledge to win in the marketplace. Employees can take classes in a range of areas including People Leadership, Franchise Leadership, Consumer Marketing and Customer/Commercial Leadership. Additionally, CCU conducts best practice research and provides coaching/consulting services with a view to transfer learning between different parts of the Coca-Cola franchise system.

The Coca-Cola Company values the health and well-being of its employees and provides a variety of market-competitive benefits programs to address employees' benefits needs. The total benefits package is highly regarded and is designed to meet employees' basic and life-changing benefits needs. As market dynamics evolve, the Company regularly assesses the benefits programs to ensure employees receive those benefits they value and are provided with diverse options that address the issues of individuals and families and promote healthy lifestyles.

4.4 Technology Development

Technology is a key driver in every value-added activity within Coca-Cola. The rapidly changing technology such as automation, supply chain management and packaging technology has tremendous importance in the way Coca-Cola does business worldwide. Technology in Coca-Cola transcends the conventional wisdom that is primarily focused on research and development. Coca-Cola has a strategic innovation group where R&D staff is devoted to exploring new products and processes. Technology at Coca-Cola can be categorized as product development and process development.

Product development refers to the concept, design and commercialization of new products. Recent examples of the results of product development are Dasani plus, Enhanced Minute Maid products, and Enviga as described in the Product Strategy section.

Process development, on the other hand, refers to development and use of new procedures, practices or equipment to improve the value adding activity itself. One of the ambitious projects Coca Cola is implementing under process development is the six-sigma project. Coca-Cola is implementing Six Sigma under the heading of Business Process Excellence, a complete program to help run the business. This differs from the approach many companies are taking, where these firms are narrowly implementing Six Sigma today in manufacturing, and do not see it as a way to run and manage the entire business – merely a tool to improve a process or an operation.

Coca-Cola looks at it much more as a way to connect the business parts with one another – that is an important element. The model includes three major components: The focus on the key indicators of the business, understanding and aligning the business processes and measuring them from a customer perspective, and finally, driving improvements through the rigorous application of the DMAIC (Define, Measure, Analyze, Improve & Control) improvement methodology or the DMADV (Define, Measure, Analyze, Design, & Validate) (re-)design methodology. Coca-Cola is making sure that everyone has the tools and the methodology to solve problems – including the statistical rigor that was missing from the TQM approach of the 80's – whether they are engineering or analytically oriented people who find this approach to be a very natural fit, or those who find this approach to be quite new, they all share a common framework to approach problem solving.

The aim of process development is to adapt new techniques or to improve the existing methods of conducting value added activities. Coca-Cola is investing in technology product and process- to find new sources of competitive strength.

4.5 Procurement

Procurement refers to purchasing the necessary inputs, resources or raw materials for Coca-Cola's primary value adding activity. The purchasing function involves specific procedures such as a billing system, methods for dealing with suppliers and vendors, and an information system about raw materials. Even though it is a support activity, the purchasing function can significantly enhance cost position relative to its competitor. Coca-Cola uses EBP for many of its procurement functions.

Enterprise Buyer Professional (EBP) is an SAP web-based module that enables Coca Cola to automate the indirect procurement process. It provides dynamic procurement of indirect goods and management of all facets of the supply chain. EBP brings the paper-based procurement process online.

Benefits of using EBP can be described as follows. Firstly, procurement data is captured in a centralized repository that serves as a reporting source for identifying opportunities and managing risk. Secondly, key business processes can be automated and standardized to save time and improve accuracy. Finally, the supplier base can be rationalized and simplified to ensure consistent and competitive pricing is obtained.

Procurement practices enable Coca-Cola to gain a significant amount of economies of scale and high bargaining power over suppliers.

4.6 Primary Activities

4.6.1 Inbound Logistics

Inbound logistics deals with the handling of raw materials and inventory received from various suppliers. The operational procedures and tasks surrounding inbound logistics include warehousing, storage and control of raw materials used for concentrate and syrup manufacturing. Inbound logistics are a primary activity because they represent the beginning of Coca-Cola's value adding conversion of inputs.

Several initiatives are taken to streamline inventory control, storage and material handling. Some of the initiatives implemented are optimized such as the location of distribution facilities to minimize shipping times, material and inventory control systems, IT systems to reduce time to send "returns" to suppliers and warehouse layout and designs to increase efficiency of operations for incoming materials.

These initiatives will dramatically improve Coca-Cola's cost position in this activity. Failure to reduce storage and inventory cost can result in significant competitive disadvantage. Inbound logistics require significant capital investment.

4.6.2 Operations

Operations in Coca-Cola are activities and procedures that transform raw materials into finished products. The production process at the Coca-Cola

Company is depicted in Figure 3.1 (Page 43). The company essentially produces syrups and concentrates and then sells them to authorized bottling and canning operations that package and distribute the final product. The bottlers combine the syrup with carbonated water or combine the concentrate with sweetener and water and/or carbonated water (depending on the product) to produce a finished beverage. Finally the beverage is packaged in cans or bottles and then transported to warehouses or to customer locations.

Bottlers are a critical local link. Bottlers sell and market Coca-Cola brands to businesses and institutions -- retail chains, supermarkets, restaurants, small neighbourhood grocers, sports and entertainment venues, schools and colleges. Some of the key initiatives taken in operations include efficient plant operations to minimize costs, an appropriate level of automation in manufacturing, quality production control systems to reduce costs and enhance quality and efficient plant layout and workflow design.

Success in managing and improving upstream operations over time represents a critical source of leverage in building or reinforcing Coca-Cola's ability to compete in a sustained manner. Important factors to consider in Coca-Cola's operation include relative age of equipment, type of technology and the size of plant, economies of scale, production levels and wage rates.

4.6.3 Outbound Logistics

Outbound logistics refers to the transfer of concentrate to different bottling plants. The focus in outbound logistics is on managing the flow and distribution of

concentrate to the bottlers. Activities and procedures associated with outbound logistics include inventory control, warehousing, and storage and transportation of finished product.

The outbound logistic department perform an exceptional duty in Coca-Cola which includes effective shipping processes to provide quick delivery and minimize damages, efficient finished goods warehousing processes, shipping of goods in large lot sizes to minimize transportation costs and quality material handling equipment to increase order picking.

4.6.4 Marketing and Sales

Marketing and sales activities at Coca-Cola include advertisement, promotion product mix, pricing, distribution channels, working with whole sales and sales force issues. Marketing is vital in helping Coca-Cola to determine the competitive scope of its value adding activities. Some of the key competencies of the marketing and sales department of Coca-Cola are a highly motivated and competent sales force, innovative approaches to promotion and advertising, selection of the most appropriate distribution channels, proper identification of customer segments and needs and effective pricing strategies. The marketing and sales activities at Coca-Cola can be categorized into 1) Consumer marketing and 2) Customer and commercial leadership.

1. Consumer marketing.

Marketing investments are designed to enhance consumer awareness and increase consumer preference for Coca-Cola brands. This produces long-

term growth in unit case volume, per capita consumption and the share of worldwide nonalcoholic beverage sales. Through the relationships with the bottling partners and those who sell Coca-Cola's products in the marketplace, Coca-Cola creates and implements marketing programs both globally and locally.

In developing a strategy for a Company brand, Coca-Cola conducts product and packaging research, establishes brand positioning, develop precise consumer communications and solicits consumer feedback. Coca-Cola's integrated global and local marketing programs include activities such as advertising, point-of-sale merchandising and sales promotions.

2. Customer and Commercial Leadership

The Coca-Cola system has millions of customers around the world who sell or serve the products directly to consumers. Coca-Cola focuses on enhancing value for its customers and providing solutions to grow their beverage businesses. Coca-Cola's approach includes understanding each customer's business and needs, whether that customer is a sophisticated retailer in a developed market or a kiosk owner in an emerging market.

Coca-Cola focuses on ensuring that its customers have the right product and package offerings and the right promotional tools to deliver enhanced value to themselves and the company. Coca-Cola is constantly looking to build new beverage consumption occasions in its customers' outlets through unique and innovative consumer experiences, product availability and delivery systems, and beverage merchandising and displays.

4.6.5 Service

Customer service is a central value adding activity. Coca-Cola is redefining the way it manages its customer service activities. Customer service includes activities and procedures such as effective use of procedures to solicit customer feedback and to act on information, quick response to customer needs and emergencies, the ability to furnish replacement products as required, effective management of product inventory, quality of service personnel and ongoing training and appropriate product quality promises.

Customer service is so important as a competitive weapon because it enables Coca-Cola to create value immediately before customer's eyes.

4.7 Culture of the Firm

Coca-Cola's culture is distinctive and commendable. Its community consists of talented people guided by common ethics. The global Coca-Cola community consists of employees, distributors, wholesalers, and bottlers and comes from every part of the world. Keeping this diverse group of people together and unified in purpose is no easy task.

Organisational and reward systems help but cannot substitute for Coca-Cola's values and global image that span many cultures and beliefs. Leadership, passion, integrity, accountability, collaboration, innovation and quality represent core values that define the way Coca-Cola views it. These values form an invisible bond that ties together Coca-Cola's numerous subsidiaries and

relationships around the world. The working environment is very comfortable and wide-ranging which makes it easier to get tasks completed.

The employees take pride in doing things the right way. Those working for Coca-Cola share many of the same qualities that allow Coca-Cola to continue to grow. Coca-Cola's employees are smart, avid, dedicated, inventive, and risk-takers. At every level, Coca-Cola has world-class people that contribute to every day successes.

They are loyal in attempting to make Coca-Cola the best consumer products company in the world in every aspect of its business. The company exists to benefit and refresh everyone who is touched by its business. The purpose is to retain and convey the enthusiasm of being part of a vibrant, results-oriented company, with prevailing brands and world-class people.

Value chain analysis helped us to understand the primary activities and support activities in Coca-Cola. This can be further used to assess whether Coca-Cola is performing each activity in a way better than that of its competitors. What we learn from this analysis is that Coca-Cola has a very strong internal infrastructure to compete in the soft drink industry. The next section of the internal analysis will focus on financial analysis of the company.

4.8 Financial Analysis

The objective of financial analysis is to assess the company's financial health. In this section, income statements, balance sheets, and cash flow statements were analysed for the last five years (2002- 2006). Most of the

analysis was done using a spreadsheet provided from the financial management course. The ratio analysis was done using the data obtained from financial statements.

4.8.1 Discussion of Income Statement

Figure 4.2 shows Coca-Cola's income statement from 2002 to 2006. Coca-Cola has been able to grow revenues from \$19,564 million to \$24,088 million from 2002 to 2006. Most impressively, the company has been able to reduce the percentage of sales devoted to cost of goods sold from 36.31 percent to 33.88 percent. The reduction in cost of goods sold was a key factor that led to a bottom line growth from \$3,050 million to \$5,080 million.

Coca-Cola operates in the highly competitive nonalcoholic beverages segment of the commercial beverages industry. The company faces strong competition from numerous other general and specialty beverage companies such as PepsiCo and Cadbury. Coca-Cola is affected by a number of factors, including, but not limited to, cost to manufacture and distribute products, consumer spending, economic conditions, availability and quality of water, consumer preferences, inflation, political climate, local and national laws and regulations, foreign currency exchange fluctuations, and fuel prices and weather patterns.

Figure 4:2 Income Statement

The Coca Cola Company (NYSE:KO)					
In Millions of USD (except for per share items)					
USD MILLIONS	2002	2003	2004	2005	2006
Revenues	19,654	20,857	21,742	23,104	24,088
Cost of sales	(7,105)	(7,776)	(7,674)	(8,195)	(8,164)
Gross Profit	12,549	13,081	14,068	14,909	15,924
Research & development	0	0	0	0	0
Selling/General/Admin	(7,001)	(7,287)	(7,890)	(8,739)	(9,431)
Deferred stock compensation					
Restructuring					
<i>Unusual expense</i>	0	(573)	(480)	(85)	(185)
<i>Other</i>					
<i>Other</i>					
EBITDA	5,548	5,221	5,698	6,085	6,308
Amortization	0	0	0	0	0
EBIT	5,548	5,221	5,698	6,085	6,308
Interest income	209	176	157	235	193
Interest Expense	(199)	(178)	(196)	(240)	(220)
Gain on sale of assets	0	8	24	23	0
Other income/expenses	31	268	539	587	297
Income before taxes	5,589	5,495	6,222	6,690	6,578
Taxes	(1,523)	(1,148)	(1,375)	(1,818)	(1,498)
Minority interests					
<i>Extraordinary items</i>					
<i>Other</i>					
<i>Other</i>					
Net income	4,066	4,347	4,847	4,872	5,080
Shares outstanding	2,471	2,442	2,409	2,369	2,342
Earnings per share	1.65	1.78	2.01	2.06	2.17

International markets are key drivers for Coca-Cola's revenue growth.

Some 71 percent of Coca-Cola beverages are sold outside of North America.

Overall revenue growth was 4 percent worldwide in 2006, fuelled by an average 5 percent growth from international operations. For 2006, case volume sales showed 11percent increase in North Asia, Eurasia and Middle East followed by a 7 percent increase in Latin America , 6 percent increase in European Union and 4 percent increase in Africa. The worst geographic area was East, South Asia

and Pacific Rim with a 5 percent decline in volume while North America experienced zero growth. However, North America still contributed to 29.1 percent of the net operating revenues in 2006. North Asia, Eurasia and Middle East generated 16.5 percent of net operating revenues followed by European Union (14.6%), Latin America (10.3%), Africa (4.6%), and East/South Asia & Pacific Rim (3.6%).

4.8.2 Discussion of Balance Sheet

Figure 4.3 shows the balance sheet from 2002 to 2006. Although debt as a percent of total capital decreased at Coca-Cola over the last fiscal year to 0.96 percent, it is still in-line with the Beverages industry's norm. Additionally, even though there are not enough liquid assets to satisfy current obligations, Operating Profits are more than adequate to service the debt. Accounts Receivable are typical for the industry, with 36.88 days worth of sales outstanding. Finally, inventories seem to be well managed as the Inventory Processing Period is typical for the industry, at 67.54 days.

Long term debt was \$1314 million in 2006 compared to \$1154 million in 2005. The significant maturities of long term debt succeeding Dec 2006 are \$436 million in 2009 and \$522 million in 2011.

Figure 4:3 Balance Sheet

The Coca Cola Company (NYSE:KO)

In Millions of USD (except for per share items)

USD MILLIONS	2002	2003	2004	2005	2006
Assets					
Current assets:					
Cash & Equivalents	2,260	3,362	6,707	4,701	2,440
Short Term Investments	85	120	61	66	150
Accounts receivable	2,097	2,091	2,244	2,281	2,587
Inventories	1,294	1,252	1,420	1,424	1,641
Prepaid expenses	1,616	1,571	1,849	1,778	1,778
<i>Other current assets</i>					
Total current assets	7,352	8,396	12,281	10,250	8,596
Non-current assets					
Trademark	0	0	0	0	0
Property, plant and equipment (Net)	5,911	6,097	6,091	5,786	6,748
Goodwill	876	1,029	1,097	1,047	1,403
Intangibles, Net	2,582	2,960	2,739	828	1,687
<i>Other Long-Term Assets</i>	<i>2,694</i>	<i>3,322</i>	<i>2,981</i>	<i>4,594</i>	<i>4,746</i>
<i>Long term investment</i>	<i>4,991</i>	<i>5,538</i>	<i>6,252</i>	<i>6,922</i>	<i>6,783</i>
Total assets	24,406	27,342	31,441	29,427	29,963
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable	3,692	4,058	4,403	4,493	5,055
Accrued liabilities	0	0	0	0	0
Income taxes payable					
Current portion of Long term debt	180	323	1,490	28	33
Notes Payable/ST Debt	2,475	2,583	4,531	4,518	3,235
<i>Other current liabilities</i>	<i>994</i>	<i>922</i>	<i>709</i>	<i>797</i>	<i>567</i>
Total current liabilities:	7,341	7,886	11,133	9,836	8,890
Shareholder's equity:					
Common stock Total	873	874	875	877	878
<i>Additional Paid-In Capital</i>	<i>3,857</i>	<i>4,395</i>	<i>4,928</i>	<i>5,492</i>	<i>5,983</i>
Retained earnings	24,506	26,687	29,105	31,299	33,468
Treasury stock-Common	(14,389)	(15,871)	(17,625)	(19,644)	(22,118)
<i>Other Equity-Total</i>	<i>(3,047)</i>	<i>(1,995)</i>	<i>(1,348)</i>	<i>(1,669)</i>	<i>(1,291)</i>
Total shareholders' equity	11,800	14,090	15,935	16,355	16,920
Total liabilities and shareholders' equity	24,406	27,342	31,441	29,427	29,963

4.8.3 Discussion of Cash Flow Statement

Figure 4.4 shows the cash flow statement from 2002 to 2006. In 2006, cash reserves at Coca-Cola fell by \$2,261 million compared to a positive \$3,345 million in 2004. One of the fundamental strengths of Coca-Cola is its ability to generate cash from operating activities. However, cash flow from operating

activities decreased 7 percent in 2006 compared to 2005 mainly due to increased expense in marketing and innovation activities. On investment activities, Coca-Cola spent \$1,700million in 2006 for purchasing property, plants, and equipment. On finance activities, Coca-Cola paid \$2,911 million in dividends, \$2021 million in payment of short term and long-term debt and \$ 2,416 million for stock repurchase.

Figure 4:4 Cash Flow Statement

The Coca-Cola Company (NYSE:KO)

[Income Statement](#) | [Balance Sheet](#) | [Cash Flow](#)

View: (

In Millions of USD (except for per share items)	12 months Ending 2006-12-31	12 months Ending 2005-12-31	12 months Ending 2004-12-31	12 months Ending 2003-12-31	12 months Ending 2002-12-31
Net Income/Starting Line	5,080.00	4,872.00	4,847.00	4,347.00	3,050.00
Depreciation/Depletion	938.00	932.00	893.00	850.00	806.00
Amortization	-	-	-	-	-
Deferred Taxes	-35.00	-88.00	162.00	-188.00	40.00
Non-Cash Items	589.00	277.00	683.00	615.00	1,253.00
Changes in Working Capital	-615.00	430.00	-617.00	-168.00	-407.00
Cash from Operating Activities	5,957.00	6,423.00	5,968.00	5,456.00	4,742.00
Capital Expenditures	-1,407.00	-889.00	-755.00	-812.00	-851.00
Other Investing Cash Flow Items, Total	-293.00	-597.00	252.00	-124.00	-214.00
Cash from Investing Activities	-1,700.00	-1,486.00	-503.00	-936.00	-1,065.00
Financing Cash Flow Items	-	-	-	-	-
Total Cash Dividends Paid	-2,911.00	-2,678.00	-2,429.00	-2,166.00	-1,987.00
Issuance (Retirement) of Stock, Net	-2,268.00	-1,825.00	-1,546.00	-1,342.00	-584.00
Issuance (Retirement) of Debt, Net	-1,404.00	-2,252.00	1,714.00	93.00	-756.00
Cash from Financing Activities	-6,583.00	-6,785.00	-2,261.00	3,601.00	3,327.00
Foreign Exchange Effects	65.00	-148.00	141.00	183.00	44.00
Net Change in Cash	-2,261.00	-2,006.00	3,345.00	1,102.00	394.00
Cash Interest Paid, Supplemental	212.00	233.00	188.00	180.00	197.00
Cash Taxes Paid, Supplemental	1,601.00	1,676.00	1,500.00	1,325.00	1,508.00

4.8.4 Discussion of Financial Ratios

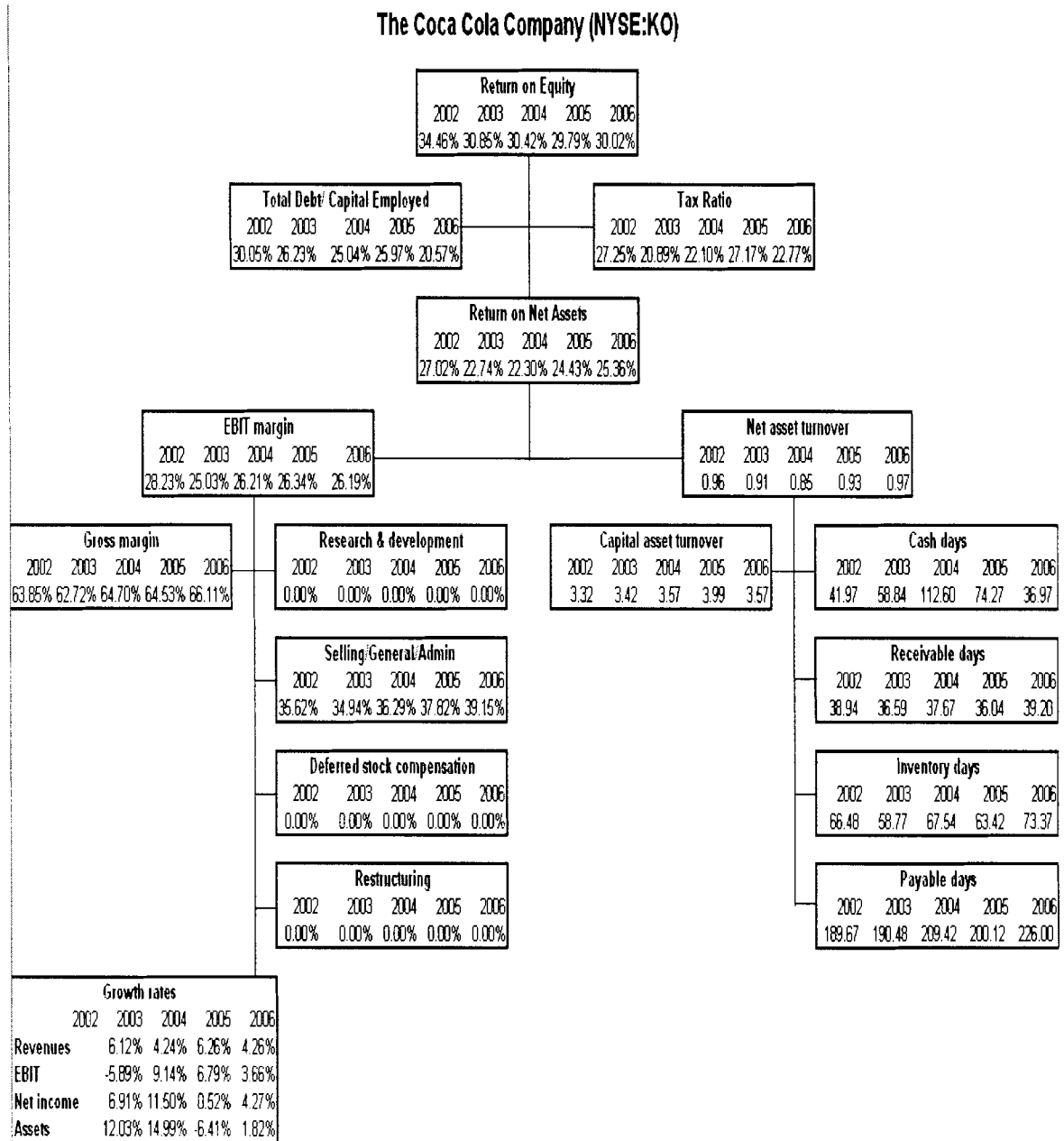
The pyramid analysis (Figure 4.5) of financial ratios shows that Coca-Cola has excellent financial performance. A high percentage of Return on Equity (ROE), Return on Assets (ROA), and Return on net Assets (RONA) indicate that Coca-Cola is a highly profitable company. An impressive financial performance is a result of high efficiency in money management over its available assets, equity and capital. The company is also working well in the generation of profits, as it has shown a very high percentage of gross margins. The profit of the company is also high, and shows that the company is good in pricing strategy and in controlling its operation costs.

The "asset turnover ratio" section shows that asset turnover is very low which means sales generated per dollar of assets are low but the company was doing well in inventory turnover. The higher number means the company has lower inventory stocks, which has both advantages and disadvantages to the company. The good point is the company does not have to invest much money in inventory but on the other hand the product may short when demand is high.

However, the "Leverage/Liquidity Ratios" section shows the weakness of the company. Coca-Cola seems to be a risky company from the very high percentage of debt to assets and debt to equity. This data shows that it has less in assets that may not be enough to pay for its debt.

The financial analysis of Coca-Cola may conclude that the company is in a very strong financial position. However, at a global level, stagnation in carbonates will affect volume growth for Coca-Cola. Volume growth in terms of

Figure 4:5 Financial ratio Analysis (Pyramid Analysis)



cases grew by only 2 percent in 2006, and remained stagnant in the key North American and Europe, Eurasia and Middle East markets. The decline in volume

will lead us to the next chapter to find out what are key issues the company is facing in today's environment.

Now I will turn to an issue analysis of what Coca-Cola seems to be baffled by and make some recommendations as how it can better deal with these issues.

CHAPTER 5: ISSUE ANALYSIS AND RECOMMENDATIONS

This chapter identifies and briefly discusses six strategic issues that the soft drink industry is facing today. Most of the issues are a result of the “change drivers” examined in Chapter 1. If these strategic issues are not seriously evaluated, they will have negative impact on the long term profit potential of Coca-Cola. These issues form the basis for the six recommendations that I believe will strategically sharpen Coca-Cola’s focus.

5.1 Declining volume in Carbonated Soft Drink Sector

William Pecoriello, a leading beverage industry analyst from Morgan Stanley & Co, makes his prediction on the carbonated soft drink (CSD) category where he notes,

“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).

Let us look into the current situation in North America. In Canada, regular cola carbonates volumes declined by 2 percent in 2005, and total sector volume growth was either negative or below the population growth rate since 2001.

Definitely, CSD is a declining sector. This sector is simply too large and lacking in positive health attributes for it to be able to succeed in an increasingly health conscious marketplace (Euromonitor International, 2005).

For the first time in two decades, the number of soda cases sold in the United States declined. In 2005, case volume was down 0.7 percent to 10.2 billion cases. Category volume dropped 3.9 percent in combined channels, with Coca-Cola falling 4.2 percent, Pepsi-Cola sinking 4.7 percent and Cadbury Schweppes dipping 1.2 percent. Even flagship diet brands took a hit, with Diet Coke's volume tumbling 5 percent in the combined retail channels and Diet Pepsi's volume declining nearly the same amount at 4.7 percent.

Are there any implications of the declining volume in carbonated drinks from the market capitalization perspective for Coca Cola? For the first time in their long, competitive history, PepsiCo overtook Coca-Cola in terms of its market capitalization in December 2006. Coca-Cola fell slightly behind at \$97.9 billion to PepsiCo's \$98.4 billion – a change that industry experts credited to PepsiCo's policy of diversification and investment in new health conscious brands (Food Beverage Report, 2006)

5.2 Recommendations for declining volume in the carbonated soft drink sector.

It is quite evident from my analysis that the carbonated soft drink sector is simply too large and lacking in positive health attributes to be able to succeed in an increasingly health conscious market place. If Coca-Cola focused only on the

carbonated soft drink sector competitively, it would be unable to continue to be a market leader in the beverage industry.

PepsiCo now commands 50 percent of market share in noncarbonated drinks in the US, because it adapted the strategy of competing in the noncarbonated sector in the late 1990's. Coca-Cola was a distant second at 23 percent because of its continued focus on the carbonated sector. PepsiCo owns the leading brand in nearly every noncarbonated drink category in the United States: bottled water (Aquafina); sports drink (Gatorade); enhanced water (Propel); chilled juice (Tropicana); bottled tea (Lipton, a joint venture) and ready-to-drink coffee (Starbucks, a joint venture).

The key recommendation for Coca-Cola is to compete aggressively in the new age beverage sector to make its mark in the booming global and domestic market for energy drinks, bottled water and other noncarbonated drinks. Competing outside the carbonated soft drink sector will make Coca-Cola competitive in the growth sector of the industry. Coca-Cola must change with the times to adapt to the needs of new generations of young consumers and health conscious consumers.

Competing aggressively in the noncarbonated sector will ensure victory for Coca-Cola in the Cola wars of twenty-first century. Moreover, Coca-Cola will be well positioned to face the challenge of future needs of consumers.

5.3 Health and Wellness Trend

Health and wellness continues to be a major trend across the global beverage market. This trend is driving innovation across a range of beverage categories. Most soft drink consumers are slowly shifting their consumption patterns to products that are healthier or have fewer negative side effects. In the soft drinks market, this means that soft drink consumers are moving their consumption from regular cola carbonates to low-calorie carbonates, bottled water, sports drinks, juice and RTD green and white teas. Let us take a brief look into the scientific evidence why this trend is so predominant in the global beverage market.

A study in the medical journal The ***Lancet*** in 2001 showed that a child's risk of becoming obese increases each time he adds a daily serving of sweetened soft drink to his diet. Drinking regular soft drinks shoots up blood sugar—and insulin levels in the body as well—according to the ***European Journal of Cancer Prevention***. High insulin levels are associated with Syndrome X, cardiovascular disease, cognitive disorders, some types of cancer and type 2 diabetes. Further, women who drink a daily soda not only gain weight but also double their risk of diabetes. Moreover, high-fructose corn syrup in soft drinks has been implicated in the recent rise of obesity and diabetes, which has led several health food supermarket chains to phase out all drinks that contain it, including soda and some fruit drinks.

Diet soft drinks are the most obvious substitute, but a 2004 study surprisingly found that discouraging the consumption of both sweetened and diet

soft drinks reduced the percentage of school children that were overweight or obese. Besides, diet soft drinks have no nutritive value. Plenty of other drinks are low in sugar and calories and have nutritional or health benefits as well (Smith and Melissa 2005).

The obesity controversy is one of the most important issues shaping the soft drink industry's future. This is an issue to which the beverage industry was slow to react. It did not do a good job in understanding consumer needs. Added to this, health concerns vary enormously between social and occupational groups. The young professionals who are behind the strong growth of low-calorie colas are not concerned about diabetes – they just want to lose or maintain their weight. On the other hand, older consumers concerned about diabetes will switch from high-calorie 100 percent juices to water or one of the modified, low-calorie juices.

Parents, concerned about their children's weight and activity levels, might abandon the traditional juice box for a sports drink. Pregnant and nursing mothers are increasingly looking to lower their potential consumption of negative chemicals by buying organics and more "natural" products. The list of potential health concerns and the products that match these concerns is long, and grows every day.

5.4 Recommendations for health and wellness trend

It is very clear from my analysis and survey of literature that health and wellness continues to be a major trend sweeping across the global beverage market, especially in Europe and North America.

PepsiCo is moving forward with commitment to provide industry leadership in the health and wellness arena. For example, one of the key initiatives is PepsiCo's smart spot product support as a national sponsor of the YMCA activate America on the move. PepsiCo launched the Smart Spot symbol, the first of its kind designation that makes it easier for consumers to identify PepsiCo's products that can contribute to a healthy life style. The Smart Spot symbol meets established nutrition criteria based on authoritative statements from the US FDA and NAS. The smart spot symbol logo appears on more than 250 brands across PepsiCo's products including Tropicana, Acquifina, Gatorade, Quaker Oats and Diet Pepsi.

The recommendation for Coca-Cola is to move forward with commitment to provide industry leadership in the health and wellness arena. Coca-Cola should do a better job of staying in touch with shoppers and consumers and in the process of innovating and creating value. This is absolutely essential for value creation in the beverage industry. I think the most important driver behind the demand for beverage is population demographics. Two key segments of the market, the baby boomers and the young generation are shaping the future of the beverage industry. The aging boomer generation is more focused on preventing certain health conditions, and is more likely than other generations to

increase its consumption of healthy foods and beverages, and avoid problematic ingredients such as sodium and sugar. On the other hand, the younger generation demands new age sport drink and energy drink. Coca-Cola's failure to understand this market need resulted in missing the opportunity to buy Gatorade brand.

5.5 Increased competition from PepsiCo

For more than a century, Coca Cola and PepsiCo vied for "throat share" of the world's beverage market. The most intense battles in the so-called cola war were fought over the \$66 billion CSD industry in the United States (Yoffie and Slind 2006). Even though PepsiCo is an archrival of Coca Cola few people realise that PepsiCo is one of the largest and most diverse food companies in the world, with annual revenues worth more than \$35billion and soft drinks only account for a quarter of this sum. With its key umbrella brands of Tropicana, Quaker, Frito-Lay and Gatorade sitting alongside Pepsi itself, the company is a global marketing machine, operating in 200 countries outside North America and managing 17 brands that each generate \$1billion or more in annual sales. In conclusion, competition from PepsiCo will remain a threat for Coca-Cola for years to come (PepsiCo 2006 Annual Report).

5.6 Recommendations for increased competition from PepsiCo.

As the cola war continues into the twenty-first century, Coca-Cola faces very stiff competition from PepsiCo. The issue is a very serious threat to Coca-Cola because of PepsiCo's dominance in the growing noncarbonated beverage

sector. Moreover, for the first time in their long, competitive history, PepsiCo overtook Coca-Cola in terms of its market capitalization in December 2006. Coca-Cola fell slightly behind at \$97.9 billion to PepsiCo's \$98.4 billion – a change that industry experts credited to PepsiCo's policy of diversification and investment in new health conscious brands (Food Beverage Report, 2006). The recommendation for Coca-Cola is to develop strategies to win the cola war in this century. Winning the cola war in twenty-first century is critical for Coca-Cola to maintain its industry leadership position and to be a total beverage company.

5.7 Conflict with bottlers

Coca-Cola use bottlers to package and distribute products. This structure often causes conflicts of interest between Coca-Cola and bottlers. It is widely criticized that Coca-Cola often profits from increased concentrate sales at the expense of bottlers' margins. Moreover, Coca-Cola has historically had higher returns and lower capital requirements while bottlers have historically had lower returns and higher capital requirements for building and maintaining production and distribution networks. Bottlers continue to consolidate in an attempt to offset margin pressure through cost reduction. Specifically, size helps the bottlers to spread fixed costs over greater volume and make larger investments in automated production lines. Finally, Coca-Cola continues to develop new products and packaging, which increases operational complexity and, therefore, expenses for bottlers. While Coca-Cola views these new products as a way to build a portfolio of options to hedge against product successes or failures, bottlers see them as a burden since they often require additional capital

expenditures. Some bottlers have even refused to carry some of the new noncarbonated niche offerings that Coca-Cola has acquired, such as Mad River teas and Planet Java Coffee, forcing the company to bury both products.

Nevertheless, the supply chain must consistently deliver value to the market in order for Coca-Cola's System to prosper. Despite any dissonance, the concept of "one face to the customer" must be maintained. But there has been much speculation about the simmering tensions between Coca-Cola and its increasingly powerful independent bottlers. Nothing would be more unsettling than a showdown between Coca-Cola and its largest bottler, Coca-Cola Enterprises Inc. (CCE) -- a mega-bottler that now controls about 80 percent of the U.S. market as well as parts of Europe. CCE's strategy has been to raise sharply the price it charges grocers and other retailers. That's boosting its profit margins -- but at the expense of Coca-Cola. Higher retail prices mean consumers buy less of its soda, so bottlers don't need to buy as much syrup from headquarters. More price hikes from CCE and other bottlers are expected, which could cut even further into concentrate sales. One reason for the continued hikes is the prospect of sharp increases in the cost of key commodities like resin and aluminium. The likelihood of a further bump up in price will put CCE and Coca-Cola into direct conflict.

5.7 Recommendations for Conflict with bottlers.

Some industry analysts have called the relationship with bottlers "dysfunctional". Isdell, CEO for Coca-Cola and former head of bottling, emphasized the need to improve bottler relations. Improving the bottler

relationship is increasingly important for Coca-Cola because some have begun distributing more non-Coke brands and pushing through aggressive retail price hikes that boost their profits but reduce the amount of syrup they buy.

The recommendation for Coca-Cola is to address this issue through senior leadership negotiations and discussion immediately because the bottlers are a critical local link to the consumers. Bottlers sell and market Coca-Cola brand products to businesses and institutions, retail chains, supermarkets, restaurants, small neighbourhood grocers, sports and entertainment venues, schools and colleges. These customers in turn sell the Coca-Cola brand products to the consumer. Working with bottlers as one Coca-Cola System will enable the company to fulfil the concept of “one face to the customer”.

5.8 Lack of innovation

Effective innovation and new product introduction and the ability to respond with agility to changing customer and consumer demands is essential, and it must be accomplished through introduction of new products and formats that are successfully planned and executed. Coca-Cola has neglected product innovation over the last few years. In the North American market, Coca-Cola has not created a best-selling new soda since Diet Coke in 1982. In recent years, Coca-Cola has been outbid by its rival PepsiCo for fast growing noncarbonated beverages like SoBe and Gatorade. PepsiCo's better adaptation to consumer health trends recently saw it overtake Coca-Cola in market value for the first time in 112 years. Innovation represents the largest single opportunity to drive profitable growth.

5.9 Recommendations for lack of innovation

Increased competition from the key players and a more health aware consumer base reflects the current constantly changing market condition in the beverage industry. Coca-Cola, the market leader in the beverage industry has been criticized widely for not taking an active role in leading this industry change because of failure to innovate. Coca Cola has attempted some diversification into different products. For the most part, however, success has arguably cannibalized some of the company's own sales. There are more than 11 types of Coke on sale including vanilla, lemon and lime flavours. However, brand extension achieves only more choice for the same consumer. Coca-Cola's attempt to introduce the Dasani brand in the UK and Powerade in North America, has not been very successful.

PepsiCo, on the other hand, has successfully moved into snacks, energy drinks and bottled water. When PepsiCo realized that its own cola was failing to compete with Coca-Cola, it implemented a strategy that was flexible to the demands of the market. With sports drink Gatorade, Aquafina water and Tropicana fruit juices in its portfolio, PepsiCo has most bases covered. Further, it takes advantage of its move into snacks with its Frito-Lay product by arguing it can offer better margin and profit potential to large supermarkets, thereby demanding more shelf-space.

Looking toward the future, a key recommendation to Coca-Cola is continuing product innovation and expansion of its product line. The soft drinks industry is a mature industry and saturated with competitors. Also, the industry is

no longer expanding, and market share is actually decreasing as more consumers are looking to healthier options. By continually introducing new products, Coca-Cola will be able to increase its profits and allow the company to continue to grow. Also, having a diverse product line will make the corporation very stable, which is appealing to investors and creditors. Coca-Cola should recognize that innovation leads to value creation. Innovative ideas can be in merchandising, supply chain innovations or new products, packages or services.

5.10 Food Safety and Statutory Regulation Issues

Food safety is going to be a key issue with evolving new products in the soft drink industry. Class action lawsuits were filed in Massachusetts and Florida last April 2006, alleging unsafe levels of benzene, a chemical linked to cancer, in certain drinks from beverage manufacturers including Coca-Cola, PepsiCo and Cadbury Schweppes. Another lawsuit was filed in May 2006 against the company, this time alleging that Coca-Cola products made in Mexico contained lead. The lawsuit claims that elevated levels of lead have been detected in the paint used to decorate the outside of glass Coca-Cola bottles, as well as in the beverage itself. Recent negative publicity due to high levels of pesticide residue in the carbonated beverage sold in India is another cause for concern. There is a wide negative campaign against using Aspartame as an artificial sweetener in diet drinks because of its health effects. All these food safety concerns could further depress demand for carbonated drinks.

The emphasis in the US is more on bio-terrorism and food security. However, the provisions in the 2005 traceability legislation in the US, which

stemmed from the Bioterrorism Act of 2002, and those in the EU Directive 178, Articles 18 and 19, are very similar. The U.S. Food and Drug Administration (FDA) is proposing the registration and tracking of almost all domestic and imported food articles, but some are concerned that the complexity of the rules will overwhelm both the food industry and the FDA.

5.10 Recommendations for food safety and statutory regulation issues.

Despite Coca-Cola's reputation as a socially responsible corporate citizen, the company has faced its share of controversy worldwide surrounding its products safety records. The company faced several food safety issues such as a contamination scare in Belgium and France, a pesticide scare in India. Contaminated Dasani in Great Britain and Benzene in carbonated beverage are some of the other major food safety issues faced by Coca-Cola recently. Amid this growing concern, regulators are cracking down on sanitation and a variety of other food safety requirements.

Coca Cola is implementing the Coca Cola Quality system (TCCQS) throughout the system to address the food safety and regulatory issues. TCCQS has been developed by a global, cross-functional team and endorsed by senior management and the bottling partners. It is a framework around which Coca-Cola's system coordinates and guides its activities, drives continuous improvement and relentlessly strives for quality.

The recommendation for Coca-Cola is to take food safety and regulatory issue seriously because Coca-Cola is the world's most trusted brand. People

around the world invite Coca-Cola's beverages into their lives more than 1.3 billion times a day. Moreover, in an age of instantaneous communication, Internet availability and satellite media coverage, the amount of information and the speed at which customers can be informed of a perceived or actual problem have increased exponentially. The prevailing media trend is to accentuate the negative rather than the positive aspects of situations. Tests conducted in Europe after the contamination scare in Belgium and France found that the products did not contribute to illnesses and that the symptoms were psychosomatic. Addressing the food safety and regulatory issues will increase the brand value of Coca-Cola and allow Coca-Cola to continue to be the stewards of food safety in the beverage industry.

This chapter has provided us some insight on the key issues faced by the soft drink industry and Coca-Cola specifically. Now that we know the key issues, in the final section I will discuss what Coca-Cola might do to rise to the challenge of the issues it presently faces.

5.11 The New Coca-Cola Company: Towards a Learning Organization

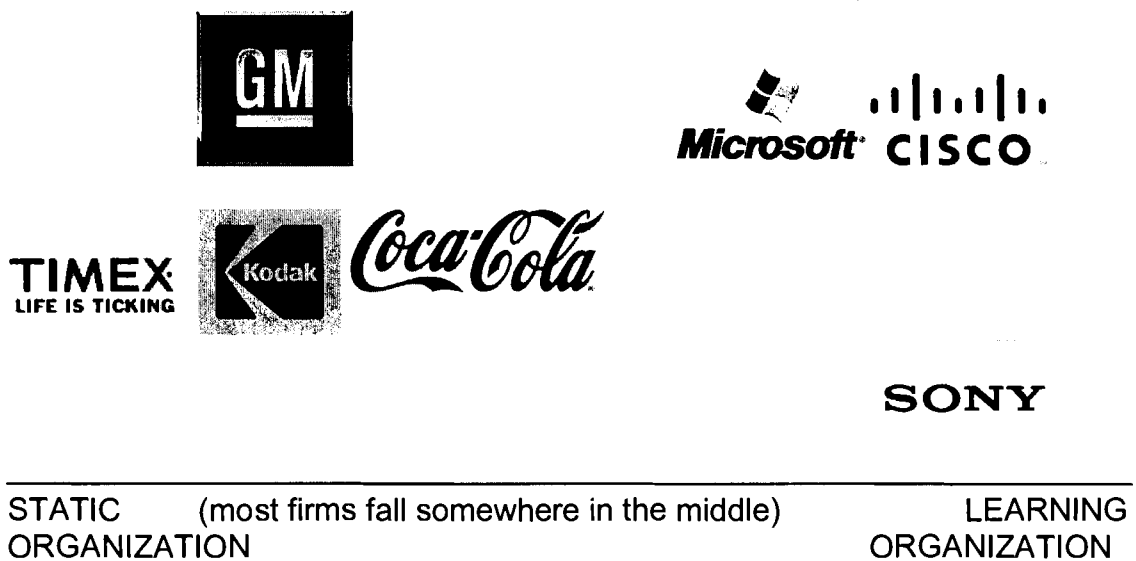
The term 'Learning Organization' refers to an organization that constantly monitors its environment for changes, and learns from and adapts to these changes. The term was coined by Harvard's Chris Argyris, but it was Peter Senge, a highly acclaimed business strategist, who popularized the term in his book, "The Fifth Discipline Fieldbook." Senge defines a 'learning organization' as a dynamic system that is in a state of continuous adaptation and improvement.

Learning organizations build feedback loops designed to maximize the effectiveness of their learning processes (Smith, 2001).

In learning organization, managers view change as an opportunity for improvement and renewal of competitive advantage. Learning organizations such as Sony or Cisco are found on the right hand side of Figure 5.1.

Figure 5:1 Adaptability to Corporate Change

(Source: Pitts and Lei, 2000)



At the far left are firms that have not adapted to the organizational practices that promote learning and change but instead focus on doing better what they are already doing. Such firms are called “dinosaur “ or static organizations. Static organizations such as Timex and Kodak are akin to dinosaurs in that they have adapted themselves well to current environmental conditions but have little ability to change. According to my view, Coca-Cola is

located somewhere in the middle of the spectrum shown in Figure 5.1. Change can and does occur in Coca-Cola but not without a varying degree of resistance and difficulty. However, Coca-Cola needs to change or adapt within a short period of time. Rapid environmental change as discussed in this issue analysis can seriously erode the value of Coca-Cola's competitive advantage.

Change can be a difficult and painstaking proposition because of an organization's resistance to change. Moreover, Coca-Cola thrived on not having to change for more than a century. Reasons for organizational resistance to change include lack of awareness of need to change, lack of interest in opportunity for change, fear of cannibalization and fear of personal loss. One of the first steps recommended is to make Coca-Cola a "boundaryless" organization. A boundaryless organization means that people in one department or division talk with people in other departments/divisions to share ideas, resources and insights. Removing or reducing formal department-divisional boundaries is an important first step in becoming a learning organization.

I embarked upon this project for two reasons. First, to better understand the emerging trends in the soft drink industry, and second, to evaluate options to address the key issues faced by Coca-Cola in today's marketplace. Through my work, I have learned a wealth of knowledge about the soft drink industry and Coca-Cola in specific. The key areas where I gained knowledge include an overview of the soft drink industry, external analysis, internal analysis and issue analysis. The overview of the soft drink industry provided me an overall perspective of the soft drink industry and the change drivers responsible for the

emerging trends in the soft drink industry. The external analysis gave me some insight into the external forces that influence the soft drink industry and the key success factors required to be viable in the industry. The internal analysis further explored the strategic fit analysis and the value chain analysis. Issue analysis and recommendation include the six major issues Coca-Cola should address immediately to successfully compete in the industry.

I think the key learning from this project is to understand the importance of strategic thinking. Strategic thinking is understanding the external environment, change drivers, emerging trends, the uncertainties and strategic risks, and their likely impact on the sustainability of business. I think the role of future leaders of Coca-Cola should be to spend more time on strategic thinking rather than relying on strategic planning. This will enable Coca-Cola to move towards being a true learning organization.

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