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A Report on Strategic Analysis and Recommendations of Coca-Cola

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Abstract: *This paper is aiming to critically assess the internationalization strategy of Coca-Cola Company, and to provide necessary recommendations next five years based on PEST and SWOT models. This paper is divided into five parts. The first part is a short description of the Coca-Cola Company, identifying the key milestones since the start of its internationalization. Second, critically analyze the company's two value-creation strategies: Diversification Strategy and Strategic Alliance, identifying its underlying assumptions. The third part is to analyze positive and negative elements of two strategies. The last two parts is to use the PEST model to analyze the external environment and SWOT model to analyze the internal environment, and then put forward specific suggestions for the development of Coca-Cola in the next five years. The recommendations could be referenced by Coca-Cola Company to some extent.*

Keywords: *Coca-Cola Company, Diversification Strategy, Strategic Alliance, PEST Model, SWOT Model; Recommendations*

1. Introduction

1.1 Company Profile

The Coca-Cola Company was invented in 1886, which is a total beverage company, offering over 500 brands in more than 200 countries and territories.

Its beverage brands include the following category clusters: sparkling soft drinks; water, enhanced water, and sports drinks; juice, dairy, and plant-based beverages; tea and coffee; and energy drinks. In addition, it owns and markets four of the world's top five nonalcoholic sparkling soft drink brands: Coca-Cola, Diet Coke, Fanta, and Sprite.

1.2 Key Milestones

In 1906, it entered Canada.

In 1920s, it entered the international market formally, cooperated with local bottling companies in Europe, America and other regions, then got a foothold overseas quickly.

Before World War II, it successfully entered the United Kingdom, France, Germany, Canada and so on, a total of 44 countries.

In 1945-1960,the number of countries to enter almost doubled, formally entered Japan in 1957, the international market income accounted for 33%.

In 1960-1980, it accelerated the expansion of Asia, the Middle East, Africa and other markets, such as entering into Turkey in 1964.

In 1980-1997, it entered emerging markets, such as China and increase global carbonated beverage market share by 15 to about 50 per cent; The contribution of international market revenue and operating profit increased continuously, reaching 80% in 1997.

Now, sales more than 200 countries and possess the world's largest market share.

2. Value-creation Strategies used by Coca-Cola Company

With the adoption of strategies, entering a foreign market can be much more comfortable. Coca-Cola, as a company, is also adopting some value-creation strategies when entering a foreign market. The following strategies are helping the Coca-Cola Company to adapt to each foreign country accurately.

2.1 Diversification Strategy

The most basic assumption is about cost. Diversification strategy is considered reasonable if the cost weight of the resources for the company needs and develops is higher than the cost of the company's own production and manufacturing in accordance with the free allocation of the market.

Coca-Cola has more than 3,300 beverages in its portfolio, ranging from diet and regular bubbles to juices, beverages, water, sports and energy drinks, tea and coffee.

The product diversification strategy describes any changes to the current product. It's a process that involves building a new foundation for customers, the way they communicate the potential of the product. This process is achieved through brand extension or new brand implementation.

Brands such as Coca-Cola, Diet Coca-Cola, Sprite, and Fanta, are part of the traditional offer of sparkling beverages. Products in this category represent a significant segment. They offer consumers a satisfying and enjoyable solution to keep good hydration.

One of the best product launches in the history of the Coca-Cola Company is Coca-Cola Zero. In 2009, Coca-Cola said it sold more than 600 million cases worldwide. In 2016, Coca-Cola introduced Fanta Lemon +C in Japan. The drink, which contains high levels of vitamin C, is being marketed to increase fanta's brand sales and also to meet consumer demand for more vitamin C.

In New Zealand 2014, Coca-Cola Company introduced MOST. MOST is a range of 100% organic juices that is created from organic New Zealand apples. It is targeted for urban and sophisticated adults and cafe dwellers. It is available in 275 ml bottles and different flavors like apple, apple, orange and mango, apple and peach, .etc. Today MOST juices are the most profitable part of the New Zealand juice portfolio and continue its growth every year.

2.2 Strategic Alliance

Its underlying assumptions are two or more independent enterprises, in order to achieve the established strategic objectives and share the benefits brought by the alliance, and can exist in various organizational forms.

A typical approach is to form a joint venture. Despite political, cultural, competitive, and economic differences, companies can collaborate with local companies that will help them.

Coca-Cola in Kenya includes a joint venture with six other companies. They are producing juices like Minute maid, and these six companies in Kenya include Cola Juice Company (CCC), which is a joint venture between these companies: Nairobi Bottlers, Mt. Kenya Bottlers, Kisi Bottlers, Equator Bottlers, Coastal Bottlers, and Rift Valley Bottlers, and The Coca-Cola Company (TCCC).

Gomez (2002) describes Coca-Cola's joint venture in Peru in his paper. Their main competitor in Peru is Inca Cola. It was introduced before what became known as Coca-Cola. After the two companies' battle for market share ended, Coca-Cola bought a 50 percent stake in Inca Coke and also acquired a 40 percent stake in Inca Coke. All bottling rights were granted to the company, which is Coca-Cola's sole bottler in Peru. Later, Coca-Cola introduced Inka Cola to other countries with its marketing strategy. In this way, through the strategic alliance, Coca Cola Company completely has precious resources.

3. Positive and Negative Elements of the Strategies

3.1 Diversification Strategy

3.1.1 Positive Elements

3.1.1.1 Expansion of Economic Benefits

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Generally speaking, the cost of joint production is less than the sum of the costs of individual production. In addition, enterprise multiple businesses can share enterprise resources. For example, in the aspect of raw materials, the original suppliers can be used for cooperation; in the aspect of sales, the enterprise can use the existing customer knowledge to save the expense of advertising and so on.

3.1.1.2 Diversification of Business Risks

An important purpose of diversification strategy is to achieve the purpose of risk diversification by reducing the volatility of corporate profits. For this purpose, an enterprise can avoid the weakness that a single business scope makes it too dependent on a certain market and prone to fluctuations. When an enterprise suffers a setback in a certain product or business field, it can make up for the loss through successful operation in other products or industries, so as to improve the ability of the enterprise to resist risks.

3.1.1.3 Borrow the Reputation of the Company's Brand in New Business

Using a company's image and reputation in one market to enter another is crucial to success in another.

3.1.2 Negative Elements

3.1.2.1 Dispersed Enterprise Resources

The resources owned by any enterprise are always limited, and the diversification strategy will inevitably lead the enterprise to spread the limited resources to each business area. As a result, it is difficult to get sufficient resources to support each field of development, and it loses advantages in the competition with the corresponding specialized competitors.

3.1.2.2 Increased Operating Costs

On the one hand, from a management domain to another domain development, starting from the input resources, management to the production efficiency, there is a difficult, even is a long process, enterprises should abandon everything I already familiar with, and from the learning technology, production, marketing, management, operation and environment coordination, etc., this process will produce a lot of extra costs and ultimately its benefits.

On the other hand, jumping from one area of business to another unrelated area of business may lead to a huge cost of gaining customer awareness.

3.1.2.3 Industry Exit Risk

Companies often give little thought to exiting before diversifying. However, if a company gets stuck in a bad investment project and fails to make a clean break, it may be wiped out.

Generally speaking, it is an objective necessity for enterprises to develop towards diversification. But it must not be excessive, lest fall into diversification trap. The diversification strategy should be adopted to further enhance the core competitiveness and expand the strategic resources of the enterprise.

3.2 Strategic Alliance

3.2.1 Positive Elements

3.2.1.1 The Collaboration is Complementary

Every enterprise has its comparative advantage and comparative disadvantage. Only by maintaining the competitive advantage and overcoming the comparative disadvantage in development can an enterprise survive in the survival of the fittest in the market.

Strategic alliance is a good opportunity to establish a learning organization. Both parties can make up for the deficiency of their own enterprise development in cooperation and constantly improve their own production, marketing and management systems.

3.2.1.2 Share Risks and Costs

Research and development is a long and costly process, so enterprises bear huge risks. Strategic alliance can help enterprises speed up information transmission and acquire new technologies, so as to avoid risks in time.

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3.2.1.3 Overcome Inefficient Management Models

If a single enterprise wants to enter the foreign market smoothly, it needs to consider the barriers to entry and other difficulties, and more importantly, it needs to overcome the low efficiency due to the expansion of enterprise scale and the increase of management level. Strategic alliance can effectively restrain the expansion of organization and improve the efficiency of enterprise organization and management.

3.2.2 Negative Elements

3.2.2.1 Communication Disorders

Strategic alliance is the combination of two companies, but in fact, it is also the integration of two cultures. Therefore, different cultural backgrounds and working methods greatly affect the communication between enterprises, leading to wrong information.

Now, although the strategic alliance has presented a relatively mature model, we still transmission and reception, and inconsistent goal formulation and strategic direction, thus breaking down the strategic alliance.

3.2.2.2 The Market Environment is Unstable

Up to cannot ignore the impact brought by the market environment.

Enterprises should pay attention to whether foreign countries restrict the form of strategic alliance and whether strategic alliance companies can effectively carry out overseas sales and transnational transfer of capital. An unstable market environment will inevitably affect the effective implementation of strategic alliance.

3.2.2.3 The Alliance Partner is Not Correct

If the partner is not chosen correctly, the development of the company will not be accelerated, but more likely to result in technology spillover and loss of core competitiveness.

In general, strategic alliance is a good strategy, but company should pay attention to the choice of strategic alliance partners and appropriate alliance way.

4. Two Models

Next, I will use the PEST model to analyze the external environment and SWOT model to analyze the internal environment, and then put forward specific suggestions for the development of Coca-Cola in the next five years.

Table 1: PEST Model Analysis

P	1. The United States has taken chaotic measures against novel coronavirus and weakened its economy, which is unstable in the face of the epidemic. 2. In the face of novel coronavirus, China took the lead in implementing public health measures to contain the spread of novel coronavirus, protect the population from the virus, and then used monetary and fiscal policies to promote an economic rebound.
E	1. As a result of the epidemic, large business groups around the world have been downsizing their production scale this year in an effort to save costs as much as possible, and unemployment rates have risen rapidly everywhere. 2. China's post-COVID-19 economic rebound is gaining momentum, relevant data show that China will quickly return to the growth trend before the epidemic.
S	The epidemic has aggravated global competition. Affected by the epidemic, the social situation of the United States is extremely unstable, with economic development stagnating, unemployment rate rising rapidly, and the market demand for Coca-Cola declining rapidly.
T	1. Sales of fizzy drinks, notably Coke, which accounts for nearly 75% of coke's global sales, have been falling in recent years as consumers have become more health-conscious. 2. Too much sugar can do a lot of harm to the body, such as obesity, especially now that people advocate healthy life, so coke manufacturers are actively pushing for new changes.

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4.1 Internal Environment Analysis in SWOT Model

4.1.1 Strength

4.1.1.1 Strong Brand Identity

Coca-Cola is a very popular brand with a unique brand identity. Its soft drinks are the best-selling in history and resonate with consumers of all ages.

4.1.1.2 Strong Distribution Network

Coca-Cola sells 1.9 billion products a day in more than 200 countries and has introduced more than 500 new products worldwide. Coke's ability to leverage distributors owned and controlled by the company differs from that of independent bottlers, wholesalers and retailers. The system allows Coke to closely manage costs, quickly introduce new products to markets and saturate regional markets.

4.1.1.3 Customer Loyalty

Coca-Cola has attracted a core following, and many consumers consider themselves fans of its products and tend not to switch to other brands. Coca-Cola is considered one of the most emotionally connected brands. This valuable brand is associated with "happiness" and has strong customer loyalty. Customers can quickly identify their unique tastes, and alternatives are hard to find.

4.1.1.4 Overwhelming Market Share

Coca-Cola and Pepsi are the only two largest soft drinks producers in the beverage industry, and Coca-Cola has the largest market share.

4.1.1.5 Acquisition

In 2016，Coca-Cola acquired AdeS, which is Latin America's largest soy beverage brand; In 2018, it acquired Costa, the UK's largest coffee chain. Through acquisitions, Coca-Cola has expanded its portfolio of ready-to-drink drinks.

4.1.2 Weakness

4.1.2.1 Product Diversification

Coca-Cola's non-beverage products are less diversified. Pepsi has introduced a number of snacks, such as Kool, and Coke has lagged behind in this segment.

4.1.2.2 Increase of Water Resource Cost

As the demand for water around the world continues to rise and water resources become increasingly scarce, the overall quality of available water could deteriorate significantly, resulting in higher costs or capacity constraints for the Coca-Cola system. In the long run, this could adversely affect its profitability or net operating income.

5. Model-based Recommendations

5.1 Maintain and Expand the Brand Advantage of Coca-Cola

According to the SWOT analysis above, the internal advantages of Coca-Cola can be seen from its unique brand logo, iconic logo, classic red and white color, and world-renowned advertising slogan.

Coca-Cola has a large number of loyal customers, who can quickly identify their unique tastes and find it difficult to replace them. The brand of Coca-Cola is not only recognized by the majority of consumers, but also recognized by distributors all over the world. At present, Coca-Cola has a huge market share in more than 200 countries and regions. There are two major key enterprises in the Coke industry, and Coca-Cola still maintains its top position as the obvious winner.

So in the next development plan, the first thing to do is to use its unique brand effect, and leadership in the industry and to maintain and expand the Coca-Cola brand advantage, maintain and improve coke's main business, stable sales in had occupied the market, and strive to occupy more market share, to maintain stable cash flow.

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5.2 Market in More Remote Areas

Coca-Cola should make full use of its successful distribution network and continuously improve the quality control and safety of its products. For a large company, the stability of the distribution network has been a great good; expand the market for Coca-Cola company to seek out in remote areas in contact with new customers.

By the SWOT analysis of Coca-Cola's acquisition of advantage and external strategic opportunities of PEST model，Coca-Cola in the future, should put attention more populous, and the huge market demand, developing countries and market share is not high in remote areas, and overseas mergers and acquisitions is Coca-Cola can quickly open a piece of one of the important means of local market.

5.3 Reduce Underperforming Smaller Brands

In the past, Coca-Cola has diversified brand has always been its proud, Coca-Cola owns more than 500 brand worldwide, but at this year's outbreak, under special circumstances in the second quarter of 2020, Coca-Cola's sales of $7.15 billion, while the figure in 2019 for $9.997 billion, fell 28% year on year, the biggest quarterly decline in 25 years.

The epidemic has led Coca-Cola to discover that it is not a good thing to have such a diverse range of brands. According to its industry analysis, Coca-Cola has too many small brands that are underperforming globally. Among its more than 500 brands, more than half are single national brands with little or no scale. Therefore, in the future development plan of Coca-Cola, a task that has to be put on the agenda quickly is to eliminate these small brands.

In fact, Coca-Cola has already started this project, and the products it will stop producing this year are ZICO coconut water and Hubert's lemonade.

In the future, Coca-Cola should be more decisive in weeding out more of its smaller, less profitable brands.

5.4 Keep Innovating New Products to Reduce the Disadvantages of Relying Too Much on One Product

From the SWOT analysis above, it can be seen from the external strategic threat factors of Coca-Cola that carbonated drinks cause two serious health problems -- obesity and diabetes, which have been criticized for a long time.

Therefore, the next step for Coca-Cola must be to quickly withdraw funds after eliminating a large number of small brands, invest more research and development funds in product innovation, and adjust corporate strategy to try to introduce healthier carbonated drinks and other products.

In the past, Coca-Cola has developed some variations of Coca-Cola drinks, such as Coca-Cola vanilla and cherry flavor. For example, some healthy diet Cokes without sugar have been introduced. Coke Coffee, announced by CEO James Quincey in 2019, combines Coffee with carbonated beverages with less caffeine than Coffee and more caffeine than regular Coke. In June 2020, Innocent, invested by Coca-Cola, launched its Fresh beat Innocent products in the Chinese market.

In the future, Driven by innovation, Coca-Cola will open up more new product segments. Looking forward to the future, Coca-Cola should focus on building more relationships with coffee, energy and health drinks companies.

5.5 Aim at the Chinese Market and Increase Investment and Business Expansion in China

In the analysis of PEST model of Coca-Cola Company, one thing w1.e cannot ignore is that the global economy and society are affected by the epidemic, which is extremely unstable, and all industries in various countries are affected by it.

By contrast, in terms of economic situation and social stability, China is now among the countries in the world. The economic rebound after novel coronavirus is gaining momentum. Relevant data show that China will quickly return to the growth trend before the epidemic.

Therefore, in the future, Coca-Cola should make use of its advantages to accelerate its march into the Chinese market and strengthen its investment and market development business in China.

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