COMPANY PROFILE

The Coca-Cola Co

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TABLE OF CONTENTS

COMPANY OVERVIEW

The Coca-Cola Company (Coca-Cola) is a manufacturer, distributor and marketer of non-alcoholic beverages. The company offers sparkling beverages and a variety of still beverages including juices and juice drinks, waters, enhanced waters, ready-to-drink teas and coffees, and energy and sports drinks. Coca-Cola sells its beverages under various brands including Sprite, Coca-Cola Zero, Diet Coke, Fanta, vitaminwater, Powerade, Dasani, FUZE TEA, Minute Maid, Simply, Georgia, and Del Valle. Coca-Cola markets its products to independent bottling partners, distributors, wholesalers and retailers. The company has business presence across Europe, the Middle East and Africa (EMEA), Latin America, Eurasia, North America and Asia-Pacific. Coca-Cola is headquartered in Atlanta, Georgia, the US.

The company reported revenues of (US Dollars) US$35,410 million for the fiscal year ended December 2017 (FY2017), a decrease of 15.4% over FY2016. In FY2017, the company's operating margin was 28.4%, compared to an operating margin of 17.6% in FY2016. In FY2017, the company recorded a net margin of 3.5%, compared to a net margin of 15.6% in FY2016.

KEY FACTS

Head Office	The Coca-Cola Co One Coca-Cola Plaza Atlanta Georgia Atlanta Georgia USA
Phone	1 404 6762121
Fax	
Web Address	www.coca-colacompany.com
Revenue / turnover (USD Mn)	35,410.0
Financial Year End	December
Employees	61,800
New York Stock Exchange Ticker	KO

SWOT ANALYSIS

The Coca-Cola Company (Coca-Cola) is a global beverage manufacturing company. Billion-dollar brands, a comprehensive bottling and distribution system, and cost efficiency are the company's major strengths, whereas legal issues, and the business performance of bottling investments remain major areas of concern. In the future, intense competition, stringent regulations and water scarcity could affect the company's business operations. However, growth in soft drinks consumption, tax reform in the US, responding to socio-cultural trends, and the VEB business unit are likely to provide further growth opportunities.

Strength	**Weakness**
Billion-Dollar Brands Comprehensive Bottling and Distribution System Cost Efficiency	Legal Issues Business Performance: Bottling Investments
Opportunity	**Threat**
Acquisitions Tax Reform in the US Growth in Soft Drinks Consumption Responding To Socio-Cultural Trends VEB Business Unit	Water Scarcity Could Impact Profitability Stringent Regulations Intense Competition

Strength

Billion-Dollar Brands

Coca-Cola is a leading beverage company serving consumers worldwide. The company has over 500 brands in its portfolio including 21 billion-dollar brands, which support the launch of new products and the company's foray into new markets. The company's billion-dollar brands comprise Coca-Cola, Sprite, Fanta, Diet Coke/Coca-Cola Light, Coca-Cola Zero, Minute Maid, Georgia Coffee, Powerade, Del Valle, Schweppes, Aquarius, Minute Maid Pulpy, Dasani, Simply, vitaminwater, Gold Peak, Fuze Tea, Ice Dew, smartwater, I LOHAS, and Ayataka. The Coca-Cola brand was created in 1886 in Atlanta, Georgia. It has a presence in more than 200 countries. Fanta was introduced in 1940, and is the second largest brand outside the US, with consumption totaling more than 130 million times on a daily basis. Sprite is a lemon-lime flavored soft drink launched in 1961 and ranked as the No. 3 soft drink worldwide. Diet Coke was introduced in 1982 as Coca-Cola light, and is now available in more than 185 markets worldwide. Launched in 2005, Coke Zero has presence in more than 150 countries. Georgia Coffee is the No. 1 ready-to-drink coffee brand in Japan that offers more than 100 varieties of cold and hot coffees in nine countries.

Comprehensive Bottling and Distribution System

Coca-Cola has one of the most comprehensive bottling and distribution systems in the world. The company has an operating network, which comprises company-owned or -controlled bottling and distribution operations, independent bottling partners, distributors, wholesalers and retailers spread over 200 countries. The company manufactures and sells beverage concentrates and finished sparkling soft drinks. In FY2017, the company generated 51% of its revenue from concentrate operations and remaining 49% from finished products operations. In addition, the company has five of the largest bottling partners: Coca-Cola FEMSA, Coca-Cola European Partners, Coca-Cola HBC, Arca Continental, and Swire Beverages. In FY2017, these bottling partners represented 41% of total unit case volume. As of December 2017, Coca-Cola operated 48 manufacturing facilities worldwide, of which 44 are owned. It also owned 32 principal beverage concentrate and/or syrup manufacturing plants. In FY2017, Coca-Cola operated 185 principal beverage distribution warehouses.

Cost Efficiency

The company reported improvement in cost efficiency during the review period. Coca-Cola's operating cost as a percentage of sales stood at 78.8% in FY2017 compared to 82.4% in FY2016. The improvement was due to a decline in operating expense by 19.1% from US$34.5 billion in FY2016, to US$27.9 billion in FY2017. The decline in operating expenses was due to a decrease in selling, general and administrative expenses by 18% to US$2.8 billion in FY2017, reflecting the impact of divestitures. It was also due to a decrease in other operating expenses by 13.1% to US$5.1 billion, which showcases savings from productivity and reinvestment initiatives, and a decline in net periodic benefit cost. The improvement in cost to sale ratio resulted in improvement in operating margin. Operating margin increased to 21.2% in FY2017 from 17.6% in FY2016. Operating income increased by 1.8% from US$7.4 billion in FY2016, to US$7.5 billion in FY2017.

Weakness

Legal Issues

Lawsuits could result in huge penalties thereby increasing the company's operating costs. Coca-Cola has been a defendant in several lawsuits. In January 2017, non-profit firm Praxis Project filed a lawsuit against the company and the American Beverage Association (ABA) in a district court of California over deceptive marketing of sugar-based beverages. In its lawsuit, Praxis alleged that both Coca-Cola and ABA ran advertisements saying that drinking soda can boost the energy levels. Praxis further alleged that the company and ABA violated the federal Fair Advertising Law and misled the customers about the health implications of sugary drinks, as studies found that they could lead to type 2 diabetes and other diseases. In April 2016, Coca-Cola reached a settlement deal with the Center for Science in the Public Interest (CSPI) in a class action lawsuit related to marketing of its Glaceau Vitaminwater line of drinks. In its lawsuit, originally filed in 2009, CSPI alleged that Coca-Cola and its subsidiary Glaceau made false claims about health benefits of sugary drinks. As part of the settlement, Coca-Cola should mark 'added sugars' to the label of Glaceau Vitaminwater products.

Business Performance: Bottling Investments

The Bottling Investments segment's revenue declined from US$19.7 billion in FY2016 to US$10.5 billion in 2017, representing a decrease of 46.3%. The decline was due to a 41% fall in unit case volume of Bottling Investments owing to the reduction in refranchising activities in North America and China. As a result the company's total revenue declined by 15% from US$41.9 billion in FY2016 to US$35.4 billion in FY2017.

Opportunity

Acquisitions

Strategic acquisitions help the company to expand its business operations. In October 2017, the company acquired a 54.5% equity stake in Coca-Cola Beverages Africa (CCBA) from Anheuser-Busch InBev (AB InBev) for US$3.15 billion. As part of the transaction, Coca-Cola acquired AB InBev's stake in bottling operations in Zambia, Zimbabwe, Botswana, Swaziland, Lesotho, El Salvador and Honduras. In March, the company and its bottling partners in Latin America, Coca-Cola FEMSA, acquired Unilever's soy drink business, AdeS, which has extensive presence in Brazil, Mexico, Argentina, Uruguay, Paraguay, Bolivia, Chile and Colombia. The acquisition is also expected to augment the market presence of Coca-Cola in Latin America. In June 2016, the company's Venturing and Emerging Brands unit acquired a minority stake in Aloe Gloe, a certified manufacturer of organic, non-GMO, kosher, and gluten free aloe-based beverages. The acquisition was part of the company's shift in focus towards entering the emerging market segment for plant-based beverages.

Tax Reform in the US

The impact of tax reform in the US is expected to give a fresh boost to the company's business. The tax reform bill is likely to allow business entities in the country more flexibility in terms of managing resources, and particularly cash resources around the globe and lower the cost of capital in the US. This new scenario could attract more investment in coming years on business in the country. In December 2017, the US government passed The Tax Cuts and Jobs Act (Tax Reform Act) bill. The new bill slashed the corporate tax rate to a flat rate of 21%, a drastic fall from its previous maximum corporate tax rate of 35%. Furthermore, the new law eliminates the special corporate tax rate on personal service corporations (PSCs). It also lowers the 80% dividends received deduction (for dividends from 20% owned corporations) to 65% and the 70% dividends received deduction (for dividends from less than 20% owned corporations) to 50%. The new rate is effective from January 2018. The new law also repeals the alternative corporate tax on net capital gain. According to the Joint Committee on Taxation's (JCT's) estimates, the new law reflects a net tax cut of approximately US$1.456 trillion over the 10-year budget window. The reduction in corporate tax rate is intended to make the US tax rate more competitive other countries, and is likely to enhance the profitability of companies such as Coca-Cola. The company intends to use the benefits of tax reform to repay debt and also return cash to shareowners. The new tax reform will also provide Coca-Cola more efficiency and flexibility in cash management as business decisions are less impacted by tax considerations.

Growth in Soft Drinks Consumption

Coca-Cola stands to benefit from the growing consumption of soft drinks as it markets its products in more than 200 countries worldwide. According to an in-house research report, global soft drinks consumption in terms of volume stood at 603,521.2 million liters in 2016 and is projected to grow at a CAGR of 3.7% during 2016-21 to reach a volume of 723,546.6 million liters by 2021. Major factors driving the growth include a growing global middle class population, increasing disposable income, rapid urbanization, improving buying power of customers, launch of new flavors, and changing customer needs. Usage of natural colors and sweeteners drive the growth of the industry by attracting health concerned people. Carbonates and packaged water are the largest segments of the global soft drinks market, accounting for 33.1% and 20.6% of the market's total value, respectively. Asia-Pacific accounts for 32.9% of the total global soft drinks market value, followed by the US (28.9%), Europe (22.5%), the Middle East (1.7%) and the rest of the world (14.1%).

Responding To Socio-Cultural Trends

Growing trends surrounding societal concerns, attitudes, and lifestyles are important to consumers. For instance, in the US and Europe, people are becoming more focused on healthy lifestyles. The trend is causing the industry’s business environment to change as firms differentiate their products in order to increase sales in a stagnant market. Coca-Cola has already implemented this in several markets, both through innovation of its own products and the acquisition of existing brands. This trend is continuing across emerging markets as well. For example, the company launched new varieties under its Minute Maid brand including Anar, Pulpy Mosambi and Pulpy Santra in the Indian market in 2017. Moreover, its subsidiary Coca-Cola Nigeria Limited launched new variants to its 5Alive brand such as the 35cl 5Alive Apple, 35cl 5Alive Tropical fruit and the 85cl 5Alive Pulpy Orange.

VEB Business Unit

Coca-Cola’s Venturing & Emerging Brands (VEB) business unit focuses on identifying and nurturing brands with billion-dollar potential. VEB brands generate about US$1.8 billion in retail sales for Coca-Cola. Brands under this unit include Blue Sky, Core Power, Fair Life, Hansen’s, Honest Tea, Hubert’s, Illy, Peace Tea, Suja, Tum-E Yummies, Zico and Investments. Each brand under VEB runs through four phases of growth including experimentation, proof of concept, pain of growth and scale to win. The US-centric unit consists of retailers, bottlers, investors, consumers and communities as partners, and is created to identify brands poised for market disruption and innovate at a faster speed. VEB, which is supported by consumer agencies like First Beverage Group and Ypulse, plays four core roles at Coca-Cola including futurist, investor, incubator and integrator. VEB’s initial investment in Honest Tea, currently a fast-growing tea brand of Coca-Cola in the US, resulted in a full-on acquisition. In October 2017, Coca-Cola North America acquired Topo Chico, one of the popular sparkling water brands in the US, especially in Texas. The fast-growing brand is currently sold in Northern Mexico and in 35 states across the US.

Threat

Water Scarcity Could Impact Profitability

Water is the main ingredient in substantially all of the company’s products. Rapid population growth and continued pollution of existing freshwater sources have created water shortages in nearly every country. According to the United Nations, about 1.2 billion people, or almost one-fifth of the world's population, live in areas of physical scarcity, and 500 million people are approaching this situation. Another 1.6 billion people, or almost one quarter of the world's population, face economic water shortage. According to the United Nations, by 2030, the world will face nearly 40% of short fall in water supply. As a result, the company may incur increasing production costs or face capacity constraints, which could adversely affect its profitability in the long run.

Stringent Regulations

The company's business operations are subject to the rules and regulations of the Food and Drug Administration (FDA) and other federal, state and local health agencies regarding production and marketing of beverages. The FDA also regulates the labeling of containers under The Nutrition Labeling and Education Act of 1990. Similarly under one such law in California, known as Proposition 65, if the state has determined that a substance causes cancer or harms human reproduction, a warning must be provided for any product sold in the state that exposes consumers to that substance. If the company is required to add Proposition 65 warnings on the labels of its beverage products produced for sale in California, the resulting consumer reaction to the warnings and possible adverse publicity could negatively affect the company’s sales both in California and in other markets. Thus, significant additional labeling or warning requirements or limitations on the marketing or sale of company’s products may inhibit performance.

Intense Competition

The non-alcoholic beverage industry is highly competitive. The competitors of the company include bottlers and distributors of nationally and regionally advertised and marketed products, and bottlers and distributors of private label beverages. The key factors influencing the competition in the non-alcoholic beverage industry include point-of-sale merchandising, new product introductions, new vending and dispensing equipment, packaging changes, pricing, price promotions, product quality, retail space management, customer service, and frequency of distribution and advertising. Key competitors include PepsiCo, Inc, Nestle SA, Danone SA, The Kraft Heinz Co, Mondelez International, Inc., National Beverage Corp., ConAgra Brands, Inc, Unilever PLC and Dr Pepper Snapple Group. Due to intense competition from various players, the company may be forced to increase its spending on advertising and promotions or reduce prices which may lead to reduced profits.

The level of competition has been increasing due to the strategic growth initiatives taken by competitors. For example: in Jan 2018, PepsiCo signed a partnership agreement with bottling partner Varun Beverages LTD (VBL) to sell and distribute the entire range of Tropicana juices, Gatorade and Quaker Value-Added Dairy. As part of this agreement, PepsiCo along with VBL's contiguous reach can double its distribution network across north and east India, which account for 80% of the juice market of the country.