Why coca-cola is interested in acquiring costa coffee

Business, Company

Coca Cola: History

The history of Coca-Cola began in 1886 as an american corporation, based in Atlanta. Its history began with the pharmacist John S. Pemberton as an experiment to a new drink. The outcome was the creation of a new beverage with a very good taste. Shortly after this event, Mr. Pemberton, together with his bookkeeper, Frank M. Robinson created the name “ Coca-Cola”. The early expansion of Coca-Cola into other cities in the US is related to the fact that Mr. Pemberton sold part of its business to other stakeholders. As a result, the company has operated a franchised distribution system since 1889.

The company’s rapid expansion is strongly related to the standardization of the botting system. In these early years of the marketing inside Coca-Cola, it was decided that the bottles would have a unique contour bottle and, as a result, it stood out in front of the competition. Another marketing effort was to promote free samples of Coca-Cola through coupons. This was done together with the newspaper advertisement, which caused an expansion of the beverage throughout the US.

Late in the 1970s, coca-cola tied the name of the brand to famous figures on TV and exposed the product as a beverage that people would always drink among friends and family. The company has a long history of acquisitions, such as Minute Maid in 1960 and Thums Up in 1993. However, most of these acquisitions are within the beverage industry. Nowadays, the company excels at building long lasting relationships such as FIFA World Cup and Rugby World Cup offering their sponsorship. The company is aggressive when fighting for its top market position in its industry. Since the late 2000, they focused their dedication onto producing a beverage for every lifestyle and occasion making the company flexible towards its consumers. One example of this flexibility is the release of the low calorie and no calorie drinks. Today, the current market value of the company is 195, 63 B USD as of September 2018.

Costa Coffee: History

Costa Coffee is a British multinational coffeehouse with its headquarters in Dunstable, Bedfordshire. Founded by two Italian brothers, Bruno and Sergio Costa in 1971 as a coffee roastery in Lambeth, London, the coffee was supplied to local caterers. Their first shop was opened in 1978. In 1985, Sergio bought Bruno’s shares of the company and became the sole owner. Ten years later Costa Coffee had 41 stores in UK and got acquired by Whitbread. The first ever international Costa Coffee store was opened in Dubai in 1999. In 2009, the fully owned Whitbread subsidiary, Costa Coffee acquired Central European coffee house business, Coffee Heaven for £36 million. Costa Coffee is the second largest coffeehouse chain in the world and largest in the UK. The global revenue of Costa Coffee reached £1. 29 billion in March 2018.

In April 2018, Whitbread announced its intention of demerging/selling Costa Coffee. The two biggest shareholders of Whitbread, Elliot Advisers and Sachem Head believed the individual business would be worth more than as one company, and hence, they pressured Whitbread to announce its intention to sell Costa Coffee and list it as a separate entity. Soon after, Coca-Cola made a deal with Whitbread to acquire Costa Coffee.

The deal and the strategy used to achieve it: Coca Cola is trying to acquire Costa Coffee for 5. 1 Billion US Dollars, in order to enter the coffee market. The deal is expected to cause a major shakeup in the coffee space, and be seen as a direct challenge to the dominance of Starbucks in the US. Costa Coffee has more UK stores than Starbucks, and prior to the takeover was already expanding globally.

Coca Cola has agreed to buy British coffee-shop chain Costa Coffee from parent company Whitbread for $5. 1 billion. The deal, expected to close in the first half of 2019, comes on the heels of Coca-Cola’s announcement earlier in August that it was buying a minority ownership stake in sports drink maker BodyArmor for an undisclosed amount. Coca-Cola’s other investments in recent years have included milk that is strained to have more protein and a push into sparkling water. The move is both large and strategic for Coca-Cola, which has struggled in recent years with the growing perception that its signature soft drinks are unhealthy. Coca-Cola has leaned on the healthier drinks in its portfolio and launched new brands that are not soda, a strategy that could be very successful.

Now, another pillar to the strategy looks to be hot drinks, where coffee is one of the fastest-growing beverage categories globally. Hot beverages is one of the few remaining segments of the total beverage landscape where Coca-Cola does not have a global brand. The Costa purchase is also about physical stores. Costa Coffee has a massive retail presence around the world, with 3, 912 stores in 31 countries. Importantly, 460 of those stores are in China, giving Coca-Cola a footprint in a country that has been difficult for retailers to break into. Local physical presence via coffee shops with long opening hours offers a brand like Coca-Cola logistical advantages in further developing direct-to-consumer and subscription business that offers significantly great customer lifetime value than using traditional brick-and-mortar distribution channels. Acquiring Costa Coffee and developing it as a global chain would help Coca-Cola to forge a tighter relationship with consumers as well as providing local staging for last mile deliveries.

The unevenness of the portfolio is not the only reason for the total beverages strategy. The company’s strength is still primarily in sparkling carbonated drinks. Sales of carbonated drinks as a whole are still growing globally between 2% and 3%. And in developed markets such as the US, they’re declining as people switch to healthier lifestyles. The worry is that this will start happening everywhere. At the same time, global drinks growth has been primarily in still drinks – water, juice and coffee. Worldwide coffee sales are expected to grow at 6% a year for the next few years. Selling coffee to coffee drinkers will seem like an easier task than convincing them to drink Coca-Cola. Then there is sugar. Soft-drink manufacturers have come under mounting pressure from governments and campaigners for the amount of sugar in their products. Some countries have introduced a tax on sugar. While it’s common to drink coffee with sugar, coffee is not in the firing line in the same way as fizzy drinks are.

Reasons for this acquisition: For this deal we were able to analyze five different reasons concerning why the Atlanta based company, Coca-Cola is interested in acquiring the British company Costa Coffee. The coffee expertize Costa Coffee would be a big boost for Coca Cola in entering the coffee-shop industry. It has been a while since Coca Cola wanted to enter the coffee market, a market that is growing with a fast pace around the world. They have several options to enter this market, however, the most interesting one is to acquire a market leader. Costa Coffee was founded in 1971 which speaks for their expertise in this field considering their 47 years of experience. They have more than 3400 branches around the world, and an efficient coffee supply chain system from sourcing, distributing and vending their products. Even Costa Coffee roasting capabilities are massive, especially after getting a new roasting factory which would boost their production in the future. It is also important to note that Coca Cola doesn't have any experience in running retail stores for any of their brands, so the local management's experience in this field would be an added value for this acquisition. Coke's sales have been falling for the last five years. Consumers are now decreasing the intake of sugary drinks that has long underpinned the Coca Cola business empire. For this reason, Coca Cola has been searching for other options to keep their sales revenues high and rising. Therefore, an industry like coffee-shop came to be the ideal choice for them. This deal will reflect the extent to which Coca Cola cares about its consumers and how they understand the consumer's changing tastes with time. Nothing that the coffee-shop industry is not only about coffee shops dispersed around the world, but also about coffee pods, coffee mugs, coffee bottles, roasted and ground coffee, etc. This will be a new industry for Coca Cola to explore and invest to get its sales revenues to rise again. Also, Costa Coffee had installed 6000 self-serve coffee vending machines by 2016, which will be over 8000 by 2020 and they already supply coffee to restaurants, which would benefit Coca Cola adding to their grocery stores and supermarket distribution. Coca-Cola wants to diversify into a new growing segment, helping them increase their market share. The Coffee market has been increasing by 6% for the past several years, and Coca-Cola wants to take part of this “ revolution”. The company now values at 0. 8 trillion US $ and taking over Costa Coffee will make them jump to 1. 5 trillion US $, making it the number 1 brand value in the world (Apple is rated at the number 1 brand at the moment with a value of 1 trillion US $). New revenue sources for Coca Cola, like launching the new ready to drink cold and hot coffees and at home options. Due to their already established supply chain system, Coca-Cola can benefit from Costa Coffee expertise to launch newly ready coffee drinks (Hot or cold coffees) even with the coffee at home options (thus competing with companies like Nespresso and Nescafe) by introducing pods, coffee machines, roasted or ground coffee. All these previous options would be a massive new revenue for Coca-Cola, specially with its availability inside the FMCG (Fast Moving Consumers Goods) industry, its expertise in the field, and its relationships with supermarkets and retailers in that industry.

Costa coffee wants to expand inside the Chinese market, which is a fast growing market for coffee consumers. China is one of the biggest potential market at the moment, a market that has recently opened up for the coffee consumerism. According to several researches, the growth rate of coffee consumption in China is about 20% per year. This is all due to the better living standards in the country, as well as a wealthier middle class. All this makes the Chinese market extremely attractive for Coca-Cola and Costa coffee acquisition. To make the whole history more attractive, Costa Coffee already has around 450 stores in China with a plan to expand in the country and reach 1200 coffee shop by 2022. Pressure by major shareholders of Whitbread to sell Costa Coffee Elliot Advisers and Sachem Head, the two largest shareholders of Whitbread believed that joining a company from a different industry (Costa Coffee- coffee shop industry) to Whitbread would worth less than it being an individual business. Hence, they pressured Whitbread to demerge/sell Costa Coffee.