Resource based strategies used by coca cola

Established in 1944, The Coca Cola Company (Coke) is based out of Atlanta, Georgia and produces Coca Cola, an aerated soft drink.

It was originally developed by John Pemberton as a patent medicine in the late 19th century and bought out by Asa Friggs Candler a businessman with astute marketing tactics.

John Pemberton formulated the Coca Cola recipe at the Eagle Drug and Chemical Company in Columbus, Georgia as a coca wine called Pemberton's French Wine Coca.

The CCC produces a concentrate which is sold to licensed Coca Cola bottlers all over the world. These bottlers have exclusive contracts with the CCC and produce the final product in cans and bottles from the concentrate by mixing it with filtered water and sweeteners. The product is then sold, distributed and merchandised to Coca Cola retailers and vending machines.

The company also sells the concentrate for soda fountains to food service distributers and restaurants.

Coke was first sold in bottles in 1894 while the cans of Coke were first sold in 1955.

Coca Cola attempted to change the formula of the concentrate and merchandized it as " New Coke". Follow-up taste tests disclosed that most of the consumers favored the taste of New Coke to both Pepsi and Coke but the same was not accepted by the public leading to a backlash.

We will be studying this aspect of the company in this report.

Pepsi is the major competitor and usually second to Coke in sales, but it outsells Coke in some markets. Coca-Cola’s advertising has significantly affected American culture. In 2006, Coca-Cola introduced My Coke Rewards, a customer loyalty campaign, where consumers could earn points by entering codes from packages of Coca-Cola products in their websites.

Core Competencies

Firms are repositories of capabilities as determined by the social knowledge structured by organizing principles. (Kogut, Zander)

New knowledge can be created on the basis of combinative capabilities of the firm.

Core competencieds of a firm can be firm specific and those that are in public domain (Belcher, Hassard & Procter 1996). These can be applied into a core competency grid which consists of all possible meanings of core competencies with respect to a firm.

It involves product, process and administrative competencies.

Coca Cola has its product competencies in its brand name and the distinct taste that Coke offered. Coca Cola has become an indispensible component of the American culture. The company’s brand name and popularity and identity all over the world are what make it saleable to all types of individuals.

It is able to create products that taste goods and is liked by many people. However, in case of New Coke, the new product in itself was an attack on the “ Coke” brand name and hence not accepted by the product.

Coke has firm specific competencies as its model of licensed bottlers and a " secret" concentrate have not been successfully imitated by the competitors. The company makes use of a formula for their product that is top secret and it helps them achieve uniqueness in its industry. According to this view, firm-specific core competencies evolve only when there is a desire by the company or the customers to develop them. (Duarte & Snyder 2003).

The company makes use of a formula for their product that is top secret and it helps them achieve uniqueness in its industry. The next core competency is the administrative competency. The public domain competencies are a part of the human category of administrative competencies and can be well-defined procedures for administrative activities, for instance organizational structure, administrative capabilities etc. (Deal & Kennedy 2000).

Coke has a well organized organization structure which gives it administrative competency. It ensures that the company performs well and achieves its targets.

The total core competencies of Coca Cola can be summarized as strong brand value, franchise network, cost controls, distribution network and administrative control.

Therefore, the core competency of Coca-Cola can be shown in a grid as follows:

Reference: Strategic management and core competencies, Anders Drejer

Resources and Capabilities

The figure below shows the method Coke uses to interface between strategy and firm.

We can see that they are moving from emphasis on the Environment Strategy to a Firm Strategy. With regards to the decisions made by Coke, the following are the two notable points:

Internal resources and capabilities are used for formulating strategy rather than external market focus

The primary source of superior profitability is competitive advantage rather than industry attractiveness

The figure below shows the process through which Coke links its resource, capability and competitive advantage. The organizational capabilities in order to implement its strategy and attain competitive advantage are also given below.

Coke follows a strategy of leveraging its brand building capabilities to attract and retain consumers for its products. Thus, the competitive advantage of Coke is its ‘ Brand’.

The organizational capabilities of Coke in each functional area can listed be as follows:

FUNCTIONAL AREA

CAPABILITY

Corporate Function

Multidivisional Coordination

International Management

Financial Control

Management Information

Developed, Formal Vertical and Horizontal Structure

Research &Development

Market Research

Operations

Supplier Relationship

Product Design

Suited to consume needs

Marketing

Brand management

Reputation for Quality

Market Trends

Sales &Distribution

Speed of Distribution

Effective Sales Promotion and Execution

Organization Culture, Structure and Human Resources

Coca-Cola’s HR policy follows ‘ think globally and act locally’. Thus, Coca-Cola is a multi-local company. Although Coca-Cola’s headquarters is in

Atlanta, Georgia, USA, it is more than U. S. company with some operations overseas. Nearly 80% of the company’s operating income comes from its businesses outside the United States and it operates in over 195 countries worldwide.

Coca-Cola manages them through 25 operating divisions making up six regional groups: North America, the European Union, the Pacific region, the Northeast Europe/Middle East (NEME) group, Africa and Latin America. Each group has a president, accountable for the businesses in his area. Each business has its own unique qualities and can stand on its own, but has the advantage of being in a group. The common element in Coca-Cola is its ability to make each location different, and allow it to conduct its business in the way that is appropriate for the local market. The culture is comprised of diversity and this allows the global HR to maintain the link between businesses and the corporation. Another support tool for HR in Coca-Cola is the HR development committee which was used nearly 10 years ago within the finance division with every functional area of the company now having one. The role of the committee is to identify talent within the function and then develop the talent to reach its potential and conduct talent assessments. Coca-Cola has also globally developed work place rights principles and a work place safety policy in order to provide safe and healthy working environment. The 92, 800 suppliers to Coke around the world also have to practice these guiding principles.

The vision that Coca-Cola has for its employees is “ Be a great place to work where people are inspired to be the best they can be.” The values of Coke, which are guidelines for he action of its employees, can be as follows:

Leadership: The courage to shape a better future

Collaboration: Leverage collective genius

Integrity: Be real

Accountability: If it is to be, it's up to me

Passion: Committed in heart and mind

Diversity: As inclusive as our brands

Quality: What we do, we do well

Coca-Cola adopts the process of role culture, i. e. where all employees have a defined job to carry out and is normally split into a number of functions across hierarchy. Role culture is best applied in a hierarchy organizational structure in a large company and works well the roles of every employee have been pre-determined and they are in line with regulations and policies of the company. For example, Coca Cola has divided itself into various functions like accounts, marketing etc. There is also hierarchical ordering of office like are marketing director, brand managers, sales operatives etc. This type of culture is logical & rational.

Coke has also invested resources in the development of formal programmes designed to promote mentoring relationships as part of their human resource development strategy. They believe that this will help them build a competitive advantage through their employees and to create a high-performing organization. But the challenge is to maximize and/or optimize HRD's contribution to business success. Coca-Cola uses the technique of mentoring and coaching to develop their employees. Mentoring is the process of building a formal relationship where the mentor is an experienced and higher designated employee who is likely from a different department and thus no reporting relationship is involved. Mentoring helps the mentee understand the organization and their role and also helps him to learn about the culture, mission and context of how things get done. The advantages of mentoring programmes are that the mentee adopts the work culture of the organization better, increases performance, has increased commitment to the organization, increased job satisfaction, low-cost but highly relevant learning, and better cross-functional knowledge. Coaching is an interaction that is used for the purpose of developing performance and provides goals, techniques, practice and feedback. The purpose of coaching is to help an employee increase his competence and the probability of success. Coaching can occur downwards, upwards or laterally in the hierarchy. Coca-Cola Foods identifies five different types of coaching: modeling, instructing, enhancing performance, problem solving and inspiration, and support.

Coca – Cola Value Chain Analysis

The value chain model, developed by Porter, is used to segregate a firm into its strategically relevant value generating activities in order to understand the behavior of costs and the existing and potential sources of differentiation. It is a systematic way of examining all the activities a firm performs and how they interact so to analyze the sources of competitive advantage.

The value chain of the non-alcoholic beverage industry (in which the Coca Cola Company lies) contains five major activities. These activities include inbound logistics (suppliers), operations, outbound logistics (buyers/ customers), marketing and sales, and service. The value chain analysis of Coca Cola Company is shown below –

Figure: Porter's Value Chain Analysis

Inbound Logistics

The Suppliers

The suppliers of Coca-Cola include Ogilvy and Mather, Jones Lang LaSalle, Spherion, IBM, IMI Cornelius, and Prudential. The above companies supply to Coca Cola materials like ingredients, packaging, machinery, software etc.

The Standards

Coca-Cola has put certain regulations and standards in place which the suppliers (mentioned above) must adhere to. The company has named these guidelines as The Supplier Guiding Principles. Some of the guidelines include –

Compliance with laws, standards and regulations

Freedom of association and collective bargaining

Wages and benefits, work hours and overtime, health and safety, environment, etc.

The Assessment

Coca-Cola continually makes efforts to assess their suppliers by the help of third parties through interviews with contract workers and employers. If the supplier do not adhere to the supplier guiding principles or has any other issues, they are given some amount of time to take corrective measures; if not, Coca-Cola has the right to terminate their contract with these suppliers.

Operations

The Secret Formula

Coca Cola's core operation is the concentrate and syrup production. The company supplies this concentrate to the bottlers where the production of cola happens. Other activities that impacts Coca Cola's business occurs across the value chain through system's distribution networks, bottling operations and sales and marketing activities.

The challenges

The company addresses the issues by cohesively working with their partners (bottlers, suppliers etc.) to reduce the overall effects at each level of the manufacturing process. They look at the problem from a holistic view by understanding the overall environmental impact of their business through the entire lifecycle of their products ranging from raw material procurement to the production, delivery, sales and marketing of the product.

Outbound Logistics

The Distribution System

Coca Cola has the world's largest distribution system. They operate in over 800 plants around the world. They operate in more than 200 different geographic locations and market more than 2, 400 beverage products. They have distribution reach varying from hypermarkets such as Wal-Mart, fast food restaurants such as McDonalds to small Kirana stores in rural parts of India.

The Bottling Partners

Coca Cola has more than 300 bottling partners. These partners range from small family owned operations to publicly traded businesses. In order to work cohesively and meet the need of all their customers, Coca Cola has implemented the Coca Cola System in which they work together with their partners and develop strategies to benefit the full ecosystem.

Sales and Marketing

The Marketing Strategy

Coca Cola is primarily a marketing company. They market more than 2, 400 products to the consumers. They market world’s top four (by sales) beverage drink brands. Creativity is a vital strategy for Coca Cola. They work hard on their marketing strategy in order to deepen their brand connection with their customers. As a result, innovation plays a very important role in the company. Their marketing strategy is directly linked to the consumer ranging from advertising, to point of sale, to ultimately usage of a Coca Cola drink. They apply innovation is every dimension of the supply chain which includes new product development, increasing brand equity, packaging and designing various new advertising campaigns.

Service

Servicing their Customers

Activities that maintain and enhance a product value include customer support, training and development, installation and maintenance. Coca Cola’s customers range from large international retailers like McDonald’s, KFC and restaurants to smaller independent businesses and vendors like

Kirana and regional stores. They provide customized services tailored to meet their customer's needs.

Servicing their Partners

Coca Cola also supports their retailers by enabling them with the necessary training to help their businesses become more profitable and effective. They have set up Customer Development and Training Centers which are available to more than 21, 000 independent retailers. They provide free training to the retailers in areas such as marketing, finance, operations, general management and customer service.

Launch of New Coke

The Number One position of Coke was endangered by the time Roberto Goizueta became chairman in 1981. Hit by competition from Pepsi, Coca-Cola launched a sweeter version of Coke by replacing its old formula in 1985. This was called the " New Coke".

Pepsi had launched a Pepsi Challenge, a series of taste tests which highlighted that Coca Cola could be easily defeated with respect to taste.

Coca-Cola spent $4 million on market research. According to the research, it was concluded that Coke drinkers were more likely to shift from Coke to Pepsi or any other brand if it was available in the store, while most Pepsi drinkers strongly preferred Pepsi. The research suggested that the tangy and acidic formula was felt to be harsh by the younger generation.

The decision to change their formula and pull the old Coke off the market came about because taste tests showed a distinct preference for the new formula. The new formula was slightly smoother with a sweeter variation and lesser tang.

Coca Cola was already successful with launching Diet Coke. Hence, this time they focused more on the product rather than the demographics with the market inclining towards sweeter drinks.

Coca Cola had to scrap the Original Coca Cola and introduce " New Coke" in its place as two competing products couldn't have been shelved at the same time.

New Coke was finally introduced with the tagline " The Best Just Got Better".

The early response to the change was positive and the company's stock jumped with the announcement. The market research showed that 80% of America was aware of the " New Coke" within 48 hours. The sales rose by 8% for the same period last year.

However, Coke faced a lot of problems during rollout. Pepsi took advantage of the busy Coke officials and used Print Media to declare themselves as the winner of " Cola wars", thus undermining the PR and publicity activities for " New Coke". This induced a sense of doubt and thus hampered the image of New Coke in front of media and public in general.

The company feared boycotts from its customers and bottlers and the talks about reintroducing the old formula had already begun.

Coke had been established in the Americans culture and became a fundamental part of their identity, and the change was not accepted well by the public. The customers refused to buy New Coke. Their protests, Coke came to realize, were over the very idea of changing the drink which had been embedded into their tradition rather than the sweeter taste into which it had been changed to.

The company now feared boycotts from its consumers and its bottlers. The talks about reintroducing the old formula had already started by this time.

The Turnaround and Aftermath

Soon after the feared boycotts from its customers, Coca-Cola executives announced the return of the original coke in just less than three months after the new Coke's introduction. The company continued with the production of new Coke and named the old product Coca-Cola Classic, more commonly Coke Classic and later just Classic Coke. Many who tasted the hastily reintroduced formula were not convinced that the first batches really were the same formula that had supposedly been retired that spring. This is, in fact, partially true because Coca-Cola Classic differed from the original formula as all bottlers were using high fructose corn syrup instead of cane sugar.

The company found out that the time, money and skill that was spent into consumer research on the new Coca-Cola could not reveal the deep and abiding emotional attachment to original Coca-Cola felt by so many of its customer.

At first it looked as if Coke's worst fears had come to pass as Pepsi pulled into the lead, running yet another ad teasing Coke by suggesting that the whole thing was very confusing and consumers should just stick with Pepsi.

But by the end of the year, Coke Classic was substantially outselling both New Coke and Pepsi, putting the company back into the number-one position it has enjoyed ever since. New Coke, by contrast, had dwindled to a mere three percent in market share.

Coke spent a considerable amount of time trying to figure out where it had made a mistake, ultimately concluding that it had underestimated the public impact of the portion of the customer base that would be alienated by the switch. This narrative would not emerge for several years afterward, however, and in the meantime the public simply concluded that the company had, as Keough suggested, failed to consider the public's attachment to the idea of what Coke's old formula represented.

Innovation and new product development

The new Coke fiasco exposed two major issues with the Core activities of the company.

The company did not understand its own brand

The company did not understand its consumer decision making process

The company's key asset as well as core competency was brand building. However this episode showed the understanding of the brand as a part of American culture was lacking. The episode although showed the company the attachment to the brand and showed the value of the brand hence this helped them understand their resources.

The company did not understand the decision making process of the consumer as the consumer is affected by the brand and if blindfolded and made to sip the product the effect of the brand is not present. This episode showed the company that the brand cannot be separated from the product. This also changed their methods of market research which included both branded and unbranded tests.

We shall analyze the innovation process as this is one of the key aspects of the whole issue.

The method of market research prior to the New Coke was based on 3 processes:

Taste tests: The blind taste tests were overwhelmingly positive; it showed that the new taste was better than old Coke and Pepsi.

Focus groups: This was a key indicator and if this was followed then the issue could have been avoided. In the Focus groups, most participants said that it would take some getting used to. 10-12% was very angry and alienated at the change. This should have been explored.

Surveys: These were given the highest weightage, as with most surveys they very positive in convincing the new management.

There was a clear need to improve the new product development as well as the innovation process. Victor Behrmann, the head of the group’s proficiency center Eurasia, Europe, and Africa, revamped the new product development process by two methods,

He set up innovation centers in 108 countries, these countries accounted for more than 40% of the revenue of the Coca Cola Company. The center in

Brussels is an example of such innovation centers. The Brussels innovation center belongs to the system of global innovation centers. The center's undertakings include:

Development of product innovation

Packaging

Marketing and sales tools

Quality control.

It is responsible for producing more than 500 innovations a year. The portfolio worked on includes:

sports drinks

juice and juice drinks

coffee

water

flavored water

energy drinks

teas

carbonated soft drinks (CSD's)

Syrups and milk-based products

Some of the examples of innovations that have emerged from the innovation center are re-sealable canned beverages that are “ on-the-go” and Point of Purchase cooler solutions.

The second major change was the introduction of the stage gate model. The stage gate is called so because a stage is a particular phase of work and a gate is a decision making point. Every stage is followed by the gate which is a go/no-go decision. The gate opens and allows the project to move to the next stage. The gates are also used for quality control in a project. The different options at a gate are:

Returning to the same stage (improvement);

Termination

Suspension;

Proceeding (positive decision)

Behrmann stressed that speed and efficiency are vital in the stage-gate process. The stage gate process requires additional roles or “ Human Resources” to be available to run the process. The Human Resources required and their tasks are:

We have analyzed the stage gate model of the Coca Cola Company which was worked upon by one of our members and we have classified some of the activities and stages of the model.

Stage Gate Model

It is a more structured decision making process and would involve a lot more people than the old methodology. Hence more decision makers, one of whom could have raised a doubt and sent the project back into the stage for further brand research. The highlighted part of the stage gate diagram shows where this most likely would have happened. There are branded and unbranded taste tests and the branded taste test would have brought out a reaction which would have been checked at the gate hence this would have been prevented.

Stage Gate in practical Use

A real-life example of the product development process: ILKO International project.