Essay on the ratio that each of these companies use in the managements discussion...

[Business](), [Company]()

During recent time you will get to see more and more companies coming up and creating huge competition in the market. The industry of the soft drinks is facing this problem in maximum. All of them need to compete to the extreme level for getting the highest market share in business along with an excellent volume of profit. Here comes the need of comparative financial analysis of the companies to understand the position in the market and the areas of improvement. In present scenario the two most prominent giant companies in the soft drinks industry are Coca Cola and Pepsi Co.

We are going to pen down the comparative financial analysis between the two:

Primary Lines of Business and Products of Pepsi

The primary lines of business for the case of Pepsi is with regards to quick and smart marketing such that a variety of sweet, salty and grain based products, non-carbonated and carbonated beverages using the North American and international business divisions. Hence Pepsi maintains its basic four divisions in the company: Frito Lay, Pepsi Co and Quaker Foods are specifically North American brands while PepsiCo is an international name.

The primary lines of business for the case of Coca Cola is to ensure that it secures a higher position in the market, Hence in order to become the largest distributer, manufacturer and marketer of non-alcoholic beverages. Hence it supplies some of the most popular brands like Fanta, Sprite, Coke and Diet Coke which have become extremely famous for their taste and design.

Dominant Position in Beverage Sales

The most important three factors which need to be taken care in deciding the dominance of the beverage industry are Firstly size of market, secondly the rate of growth and thirdly the overall profitability of the company. Coca cola and Pepsi are two major contenders in the soft drink industry.

Coca cola is considered the kind of the soft drinks industry having a market share of almost more than 50 %, which is closely followed by the next contender Pepsi, which is having a market share of 21 %. Both these companies make the maximum volume of profit from sale outside United States of America. The share of market in USA is not the highest for soft drinks as a result both these two companies along with others need to earn the maximum profit outside America.

The gross profits, operating profits, and net income for Coca Cola and Pepsi

The financial position of the two giant competitors in soft drink industry till 30th December, 2004 has been calculated from the period 1st June, 2004 onwards. The gross profit earned by Pepsi is more than Coca cola by about 724 Million USD. When it comes to operating income of the companies Coca Cola took the lead by 1237 Million USD. While calculating the Net income difference in between the companies, we can see over here also the final lead is taken by Coca Cola over Pepsi by 2300 Million USD. As per financial aspect is concerned Coca Cola is a preferred choice over Pepsi in the soft drinks industry of the globe. (“ Comparative analyses of Pepsi and coke”, 2012)

Operating Cash flow ratio

Operating cash flow= Cash flow from operations/ Current Liabilities

It is a measure which indicates how well the current liabilities get covered by the cash flow generation.

For Coca Cola (As per the figures of balance sheet for year 2004)

Operating Cash Flow = 4, 685. 00 Millions USD / 33, 439. 00 Millions USD= 0. 140

For Pepsi (As per the figures of balance sheet for year 2004)

Operating Cash Flow = 1, 237. 00 Millions USD / 13, 266. 00 Millions USD = . 093

Importance of ratios analysis

The ratio that each of these companies use in the Management's Discussion and analysis section of the annual report to explain their financial condition related to debt financing.

Debt Financing means the finance which is accumulated by the selling of bonds, notes, or Bills to individual and/or institutional investors for which the individual and/or institutional investors who purchased these bonds, notes, or Bills become creditor of the company. The management team of both the companies needs to make expenses in the research and development section to find the financial condition related to debt financing.

There are no research and development expenses seen in the financials of Coca Cola in the years 2003 to 2005. While in case of PepsiCo expenses of 488Million US dollar is noticed.

Computation and comparison of the inventory turnover ratios and days to sell inventory for Coca -cola & Pepsi Co.

Inventory Turnover = Cost of Goods Sold/ Average Inventory

For Coca Cola (As per the figures of balance sheet for year 2004)

Inventory Turnover = 12. 72B / (2. 35B + 2. 65 B/2)= 12. 7/2. 5= 5. 08

For Pepsi (As per the figures of balance sheet for year 2004)

Inventory Turnover = 26. 69B / (2. 62 B+3. 37B/2)= 26. 69/2. 995 = 8. 91

Higher value indicates better performance and the lower value indicates in efficiency in keeping a control on the level of inventory. In this regard the performance of Pepsi is better in comparison to Coca Cola. (“ Annual Financials for Coca-Cola Co.”, 2004)

Computation of

1) The asset turnover

2) The rate of return on assets

3) Debt to total assets ratio

4) Times interest earned ratio

Asset turnover ratio

Asset Turnover= Sales Revenue/ Total assets

This ratio explains how the company utilizes its asset for producing revenue.

For Coca Cola (As per the figures of balance sheet for year 2004)

Asset Turnover = 35. 14B / 72. 92B = 0. 48

For Pepsi (As per the figures of balance sheet for year 2004)

Asset Turnover = 57. 84B/ 68. 15B= 0. 84

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The rate of return on assets

Rate of Return on assets = Net Income/ Total assets

This indicates how profitable the company in relation to total assets is.

For Coca Cola (As per the figures of balance sheet for year 2004)

Rate of Return on assets = 11. 81B / 72. 92B = 0. 161

For Pepsi (As per the figures of balance sheet for year 2004)

Rate of Return on assets = 6. 32B / 68. 15B = 0. 09

Debt to total assets ratio

Debt to total asset ratio = Total Debt/ Total assets

It indicates the % of a company's assets that are provided via debt

For Coca Cola (As per the figures of balance sheet for year 2004)

Debt to total asset ratio = 41. 6B / 72. 92B = 0. 570

For Pepsi (As per the figures of balance sheet for year 2004)

Debt to total asset ratio = 46. 68B / 68. 15B = 0. 684

Times interest earned ratio

Times Interest Earned Ratio = (net income + interest) / interest.

For Coca Cola (As per the figures of balance sheet for year 2004)

Times Interest Earned Ratio = 11. 81B+ 614M / 614M= 1. 09

For Pepsi (As per the figures of balance sheet for year 2004)

Times Interest Earned Ratio = 6. 32B+ 970M/ 970M= 0. 684= 1. 00

NET PROFITS OF PEPSI AND COCA-COLA FOR THE YEAR 2004:

PEPSI: $26, 971.

COCA-COLA: $4, 847, 000

Conclusion

The above are the most important ratio for getting the perfect comparison between the two giant companies of soft drink industry. The Coca-Cola and Pepsi Industry both have revolutionized into two brands that've prospered with their profits in the economy. Although considered to be similar in taste and quantity, Pepsi and Coca Cola both have had their respective downfalls as well as proceeds although from the charts, ' Coca Cola' has been the company which has recently been taking over the commerce and is the dominant enterprise which till today governs the major chain of businesses in the line of marketing beverages. (" Income Statement for Coca-Cola Co/ the (KO)", 2012).

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