

# Research paper

Finance



Finance and Accounting Generally speaking, with an average of 57 billion annual servings, it is crystal clear that the beverage industry is one of the fastest growing, vast, and competitive industry in the world. With over “ 500 non-alcoholic beverages brands,” the Coca-Cola Company has managed to become the market leader in the beverage industry (Coca Cola 10K Report, 2014, p. 1). This expediently explains why the Company has managed to own four out of the top five world’s non-alcoholic beverage brands. Arguably, the reason the company produces a wide variety of brands is mainly to meet the needs, desires and lifestyles of their present and potential consumers. Subsequently, managing a global company is not an easy task. As such, in order to ensure that the Company’s performance is tracked effectively, Coca-Cola adopts an operating structure as its basis of financial reporting (Coca Cola 10K Report, 2014, p. 6). This structure incorporates six operating groups, each of whose performance is generalized and presented on a consolidated basis. Equally important, with over 500 brands of beverages manufactured, distributed to over 200 countries and consumed in an average 1. 9 billion servings, the Coca-Cola Company has a clearly distinguished distribution system. Furthermore, the Company has entered into bottling partnership with other bottlers as a way to ensure that their customers get access to their desirable brands easily.

Essentially, there are various risk factors associated with a business that could affects its financial performance over time. In order to ascertain the real performance of a company, the auditors have to establish the different audit risks and performance factors that are associated with a company or an industry. The Coca-Cola Company is faced by various risk factors resulting from its daily operations. Among the factors that may affect the Company’s

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financial performance include, reduced demand arising from obesity concerns, scarcity of water and other main raw materials, evolving consumer preferences, the ever increasing industry competition brought by new entries, safety and quality of the Company's products, and foreign currency fluctuations among others (Coca Cola 10K Report, 2014, p. 12-20). As such, the Company should formulate plans and come up with effective procedures that could help the auditors detect the available risk factors for them to fairly state and adjust financial statements.

Besides the company's specific risks, an auditor should analyze the different industry related risks such as economic risks, which could negatively affect the company's performance. Thus, the industry risks could have a great impact on the performance of the Company. To illustrate, Coca-Cola's competitors such as Pepsi Company have excessively focused on low cost strategy as a promotional as well as a competitive tool (Hitt, Ireland & Hoskisson, 2011, p. 37). This will thus have a negative impact on the financial performance of Coca-Cola, due to the simple fact that there is an excess of cheaper substitute products in the market. However, it is worth noting that still, Coca Cola enjoys a greater command in the revenues as compared to Pepsi Company. To illustrate, whereas Pepsi had a 52.96% gross profit margin in 2013, Coca Cola enjoyed a 60.07% gross profit in the same year (Freudenberg, 2014, p. 101; Coca Cola 10K Report, 2014, p. 47). This can be attributed to factors such as goodwill, availability of a wide range of products, high product differentiation, partnership with other bottlers and increased promotional activities among others.

In conclusion, since its inception, the Coca Cola Company has positioned itself as a leading company in the beverage industry. Despite this however, <https://assignbuster.com/research-paper-essay-samples-7/>

the company faces excessive risks from factors such as water scarcity, emerging governmental regulations, employees demand for high wages, and healthcare costs. Moreover, competition from other industry players such as Pepsi Company have led to the availability of cheaper substitutes thus significantly affecting the Company's sales and profit margins. As such, the information presented is ideal for an auditor or a financial analyst to come up with a good financial report. To illustrate, through the provided information, one can come up with a horizontal and vertical analysis of the company that could be of great importance in explaining Coca Cola's financial performance.

#### Works Cited

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