The coca-cola company: analysis

Business

In start, I was a little bit confused about the topic. I reviewed the guidelines and initially, I selected three topics out of those given in the list.

Then, I outlined the different areas of each topic. Finally after having discussion with mentor and keeping in mind, my skills and abilities, I selected the topic for my research thesis. The topic is “ The business and financial performance of your choice of organization”. Company’s HistoryJohn Stith Pemberton invented the first Coca-Cola recipe in Columbus, Georgia, originally as a coca-wine called Pemberton’s French Wine Coca in 1885. In 1886, when Atlanta and Fulton County passed Prohibition legislation, Pemberton responded by developing Coca-Cola, essentially a carbonated, non-alcoholic version of French Wine Cola. The first sales were at Jacob’s Pharmacy in Atlanta, Georgia, on May 8, 1886.

It was initially sold as a patent medicine for five cents a glass at soda fountains, which were popular in the United States at the time due to the belief that carbonated water was good for the health. By 1888, three versions of Coca-Cola, sold by three separate businesses, were on the market. Asa Griggs Candler acquired a stake in Pemberton’s company in 1887 and incorporated it as theCoca ColaCompany in 1888. The same year, while suffering from an ongoing addiction to morphine, Pemberton sold the rights a second time to four more businessmen: J. C.

Mayfield, A. O. Murphey, C. O. Mullahy and E. H.

Bloodworth. In 1892, Candler incorporated a second company, The Coca-Cola Company (the current corporation), and in 1910, Candler had the earliest records of the company burned, further obscuring its legal origins.

Regardless, Candler began marketing the product, although the efficacy of his concerted advertising campaign would not be realized until much later. By the time of its 50th anniversary, the drink had reached the status of a national icon for the USA. The Coca-Cola Company The Coca-Cola Company operates in more than 200 countries and markets more than 2, 800 beverage products. These include sparkling and still beverages, such as waters, juices and juice drinks, teas, coffees, sports drinks and energy drinks.

Four of the world’s top five sparkling beverage brands are: Coca-Cola®, Diet Coke®, Sprite® and Fanta®. 1 The Evaluation of the Business ; Financial Performance of “ The Coca Cola Company” The Coca-Cola Company is headquartered in Atlanta, Georgia, and is structured across seven operating groups, in addition to Corporate. As of January 2007, Company had approximately 90, 500 associates and its operating structure consisted of Africa; Eurasia; European Union; Latin America; North America; Pacific; and Bottling Investments. The Coca-Cola SystemOne of its greatest strengths is the ability to conduct business on a worldwide scale while maintaining a local approach. At the heart of this approach is the Coca-Cola bottling system. The Coca-Cola system comprises its Company and its bottling partners — more than 300 worldwide.

Many consumers do not realize this, but there is a distinction between Coca Cola and its bottling partners. Coca Cola manufactures and sells concentrates, beverage bases and syrups to bottling operations, which then produce a wide array of Coca-Cola beverages. Company owns the brands and is responsible for consumer brand marketing initiatives. Company’s bottling partners, in addition to manufacturing the final branded beverages, also handle merchandising and distribution. Bottlers work closely with customers — grocery stores, restaurants, street vendors, convenience stores, movie theatres and amusement parks, among many others — to execute localized strategies developed in partnership with the Company.

Customers then sell its products to consumers at a rate of 1. 5 billion servings a day. The Coca-Cola system is not a single entity from a legal or managerial perspective, and the Company does not own or control most of its bottlers. In 2006, bottling partners in which Company had no ownership interest or a non-controlling equity interest produced and distributed approximately 83% of its worldwide unit case volume. In January 2006, Company owned bottling operations were brought together to form the Bottling Investments operating group, now the second-largest bottler in the Coca-Cola system in terms of unit case volume.

Reasons of Choosing This TopicThis business & financial analysis allows me to understand in broad terms how the dynamics of the business system work, while keeping in mind that the basic purpose and value of business activity amounts to cash flow generation. This analysis is a complete guide to the financial portrait of not only the company in question, but of the overall industry as well. Gain competitive knowledge today through the invaluable inputs of its financial analysts. The objective of this research thesis is to analyze the business and financial situation of “ The Coca Cola Company”. The period under review is 2005 to 2007.

To analyze the business situation, several macro and micro economic factors affecting the business, 2 The Evaluation of the Business & Financial

Performance of “ The Coca Cola Company” analysed with the help of various suitable models. Financial situation of Coca Cola Company is also studied by performing ratio analyses in detail. Analysis of business includes evaluating the internal factors, external factors, and resources of an organisation. Where as financial analysis generally involves evaluating the financial position and performance of an organization. The best technique to accomplish this is the analysis of financial ratios.

Factors like profitability, liquidity, gearing/risk, etc. are carefully analyzed using financial ratios of Coca Cola. To obtain help in the analysis, a time series analysis is carried out, in which, most recent ratios are compared with previous years’ ratios. For help in the analysis, the recent financial ratios are also compared with its major competitor i. e.

PepsicoInternational. At the end, the business and financial situation of Coca Cola is concluded on the basis of the analysis. Information Gathering The most important part of research was to gather all the relevant information from different sources. I took special care of the fact that the information I gather is accurate, complete and reliable.

I have provided below a brief illustration of different types of information collected as well as the sources and methods used to collect that information. Primary Sources: 1. Meeting with Branch ManagerI arranged the meeting with the branch manager of local branch near my home. From the meeting I really gather a lot of information about the cocacola and about its long and short-term objectives and plans and the issues relating to them. 2.

Interviewing the Employees When I went to meet the branch manager, I personally interviewed few employees and had a good idea after that about the company internal environment and culture. Moreover I also come to know about the rules and regulations of the company, which helped me in my project. Secondary Sources 1. Published Financial StatementsPublished Financial Statements of " The Coca Cola Company" and " PepsiCo" are needed to calculate financial ratios of these organizations. Ratios are 3 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" calculated to carry out a time-series and industry wide analysis of financial position and performance. Published Financial Statements were downloaded from the official websites of these organisations (see Bibliography).

To calculate and present financial ratios, aMicrosoftExcel Spreadsheet was used (see tables and graphs). 2. Chairman and President Report for 2007 The Chairman and President's report provides a deep insight into several issues affecting the Company's business plan, its objectives, achievements and performance. Further, it also highlights important policies and plans of the management. (From official website of Coca Cola Company) 3.

The Internet The Internet was used to gather general information on the FMCG sector in USA and the Food & Beverages Sector internationally as well. I used different search engines likeGoogle, Yahoo and MSN Search to find useful information. I saved several html pages for future use. 4.

Newspapers and Magazines Business Magazines, Journals and Newspapers carry a wealth of extremely useful information about several industries and sectors like the announcement of new products or services. I regularly read USA Financial magazines for collecting useful information. I also visited www. businessmonitor. com to get all the relevant information on the international beverages sector.

Analysis: Business Analysis The aim of business analysis is to form a view of the main influences on the present and future well being of an organization. The analysis would cover the following areas: • The environmental variables • The resource availability and its relative strengths and weakness • The believes and assumptions that make up the culture of the organisation will have an effect because they are the means of interpreting the environment and resource influences 4 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" The Environment Variables It is concerned with the position which business takes in relation to its environment; an understanding of the environment's effects on an organisation is of central importance to business analysis. 1. Macro Environmental Analysis: The PESTEL model looks at the macro-environment of an organisation, using the following headings: Political The political environment includes taxation policy, government stability and foreign trade regulations. Unfavourable political conditions in international markets, including civil unrest and governmental changes, product boycotts resulting from political activism could reduce demand for Cola's products, while restrictions on its ability to transfer earnings or capital across borders that may be imposed or expanded as a result of political and economic instability could impact on profitability.

The current unstable political conditions and civil unrest and political activism in the Middle East, India or the Philippines, the unstable situation in Iraq, or the continuation or escalation of terrorist activities could adversely impact its international business. Economical Economic environment include interest rates, inflation, business cycles, unemployment, disposable income and energy available and cost. As of June 2007, the gross U. S. xternal debt was $12 trillion.

The most recent estimate of gross public debt (also known as national debt and refers to what is owed by the combined public sector to both domestic and foreign creditors; see List of countries by public debt and global debt) was 37% of GDP in 2007, which was lower than that of Japan, Italy, France, Germany, Canada, India, Brazil, or the United Kingdom. The national debt includes the amount of the cumulative government deficits and interest. Company uses debt financing to lower cost of capital, which increases its return on shareowners' equity. This exposes the company to adverse changes in interest rates. Company's interest expense is also affected by its credit ratings.

Additionally, if the credit ratings of certain bottlers in which company has equity investments were to be downgraded, such bottlers' interest expense could increase, which would reduce equity income. 5 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" SocialThe social/cultural environment includes population demographics, social mobility, income distribution, lifestyle changes, attitude to work and leisure, level of education and consumerism. Consumers, public health officials and government officials are becoming increasingly aware of and concerned about the public health consequences associated with obesity, particularly among young people. In addition, some researchers, health advocates and dietary guidelines are encouraging consumers to reduce consumption of certain types of beverages, especially sugar-sweetened beverages. The non alcoholic beverages business environment is rapidly evolving as a result of, among other things, changes in consumer preferences, including changes based on health and nutrition considerations and obesity concerns, shifting consumer tastes and needs, changes in consumer lifestyles and competitive product and pricing pressures.

Technological The technological environment influenced by government spending on research, new discoveries and development, government and industry focus of technological efforts, speed of technological transfer and rates of obsolescence. Price and product/geographic mix increased net operating revenues by 2 percent in 2007 versus 2006, primarily due to favourable pricing and product/package mix across the majority of the operating segments. The favourable impact of currency fluctuations in 2007 compared to 2006 resulted from a weaker U. S. dollar versus most key currencies, especially a stronger euro, which favourably impacted the European Union and Bottling Investments, a stronger Brazilian real, which favourably impacted Latin America and Bottling Investments, and a stronger Australian dollar which favourably impacted Pacific and Bottling Investments. Ecological Ecological factors which affect dynamic change in a population or species in a given environment.

Factors are include geological, geographical, hydrological and climatologically parameters. All of Company’s facilities and other operations in the United States and elsewhere around the world are subject to various environmental protection statutes and regulations, including those relating to the use of water resources and the discharge of wastewater. 6 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” Legal Coca Cola is required to comply, by policy to comply, with applicable laws in the numerous countries throughout the world in which Coca Cola exist. In many jurisdictions, compliance with competition laws is of special importance to it, and its operations may come under special scrutiny by competition law authorities due to its competitive position in those jurisdictions. The Company is involved in various legal proceedings, including the proceedings specifically discussed below.

Management of the Company believes that any liability to the Company that may arise as a result of these proceedings will not have a material adverse effect on the financial condition of the Company and its subsidiaries taken as a whole. 2. Competitors/Markets Analysis: To be able to market its product properly, a firm must be aware of the product life cycle of its product. The standard product life cycle tends to have four phases: • • • • Introduction Growth Maturity Decline Coca Cola is currently in the maturity stage, which is evidenced primarily by the fact that they have a large, loyal group of stable customers. Furthermore, cost management, product differentiation and marketing have become more important as growth slows and market share becomes the key determinant of profitability. In foreign markets the product life cycle is in more of a growth trend Coke’s advantage in this area is mainly due to its establishment strong branding and it is now able to use this area of stable profitability to subsidize the domestic “ Cola Wars”.

Internal Analysis There are internal influences as well as outside influences on the firm. One of the capabilities, of an organisation, is to consider its strengths and weaknesses. Considering the resource areas of a business such as its physical plant, its management, its financial structure and its products may identify its strength and weaknesses. 1. Capability, Resources ; Competences 7 The Evaluation of the Business ; Financial Performance of " The Coca Cola Company" Strategic capability is the adequacy and suitability of the resources and competences an organisation needs if it is to survive and prosper. The relationship between capabilities, resources and competences can be observed from diagram below: ResourcesThe main resources that any organisation has to consider are shown below together with some maters that should be considered.

Resources Money Considerations Cash flow, safety margin, gearing, investment plan, dividends. Often a key resource in companies. Company Profile Discussed below under the heading of " Financial Analysis" Management Coca Cola is managed, by the three basic elements in management that Coca Cola uses by the objectives: • The identification of agreed goals by a manager and a subordinate • The definition of the subordinate's responsibilities in terms of agreed results 8The Evaluation of the Business & Financial Performance of " The Coca Cola Company" • The use of agreed goals and responsibilities to control the progress of the business Manpower/ Human Resource Number of employees with the correct skills Coca Cola refers employees as " associates. As of December 31, 2007 and 2006, Company had approximately 90, 500 and 71, 000 associates, respectively, of which approximately 16, 000 and 13, 600, respectively, were employed by entities that have consolidated. Company manufactures and sells beverage concentrates, sometimes referred to as “ beverage bases,” and syrups, including fountain syrups, and finished beverages. company’s operating structure included the following operating segments: • • • • • • • • Africa Eurasia European Union Latin America North America Pacific Bottling Investments Corporate Manufacturing Quality, flexibility, volume Markets Volume, location, product requirements Material Price, volume, quality, The principal raw materials used location are nutritive and non-nutritive t 9 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” sweeteners. Non-nutritive sweeteners uses in business are aspartame, acesulfame potassium, saccharin, cyclamate and sucralose. Brand Recognition, connotations, tainting premium brands with cheaper products Company owns or licenses more than 450 brands, including diet and light beverages, waters, enhanced waters, juices and juice drinks, teas, coffees, and energy and sports drinks. In addition, company have ownership interests in numerous beverage joint ventures, bottling and canning operations. Competences Competitive advantage is the distinctive feature that makes coca-cola stand out from its ferocious competitors such as Pepsi.

Coca-Cola makes use of its core competence i. . its main strength in order to achieve competitive advantage and stand out. In order for Coca-cola to have higher demands than its competitors it needs to do something, which makes that product better than the rest. Coca Cola has three main core competences: Consumer Marketing Marketing investments are designed to enhance consumer awareness and increase consumer preference for its brands.

This produces long-term growth in unit case volume, per capita consumption and the share of worldwide non-alcoholic beverage sales. Coca Cola heighten consumer awareness of and product appeal for its brands using integrated marketing programs. In developing a strategy for a Company brand, Coca Cola conduct product and packaging research, establish brand positioning, develop precise consumer communications and solicit consumer feedback. 10 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” Commercial Leadership The Coca-Cola system has millions of customers around the world who sell or serve products directly to consumers. Coca Cola focus on enhancing value for its customers and providing solutions to grow their beverage businesses and focus on ensuring that its customers have the right product and package offerings and the right promotional tools to deliver enhanced value to themselves and the Company.

Franchise Leadership Company must continue to improve its franchise leadership capabilities to give the ability to grow together through shared values, aligned incentives and a sense of urgency and flexibility that supports consumers’ always changing needs and tastes. Coca Cola also design business models for still beverages in specific markets to ensure that company appropriately share the value created by these beverages with its bottling partners. There is a need to build a supply chain network that leverages the size and scale of the Coca-Cola system to gain a competitive advantage. 2. SWOT Analysis Strengths and weaknesses relate to resources and capabilities where as opportunities and threats are related to external factors. Strengths Coca-Cola has been an intricate part of American culture for over a century.

The product’s image is laden with sentimentality, and this is an image many people have taken deeply to heart. This extremely recognizable branding is one of Coca-Cola’s greatest strengths. Additionally, Coca-Cola’s bottling system is one of their greatest strengths. It allows them to conduct business on a global scale while at the same time maintain a local approach. The bottling companies are locally owned and operated by independent business people who are authorized to sell products of the Coca-Cola Company.

Further strengths include: • • • • • Well known, world wide company Most used Fizzy drinks company High Market Share High Profit margin Good quality beverages 11 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” • • World-wide factories Very Efficient Production rate Weaknesses Although domestic businesses as well as many international markets are thriving, Coca-Cola has recently reported some “ declines in unit case volumes in Indonesia and Thailand due to reduced consumer purchasing power. Latin America, Southeast Asia, and Japan account for about 35% of Coke’s volume and none of these markets are performing to expectation. Further company could improve the distribution channels. Opportunities Brand recognition is the significant factor affecting Coke’s competitive position. Coca-Cola’s brand name is known well throughout 90% of the world today. The primary concern over the past few years has been to get this name brand to be even better known.

Packaging changes have also affected sales and industry positioning, but in general, the public has tended not to be affected by new products. Coca-Cola's bottling system also allows the company to take advantage of infinite growth opportunities around the world. Further opportunities may include, much well known products, more cash cows, and change area of expertise to a variety, other than Beverages. These strategies would give company the opportunity to service a large geographic, diverse, area. Threats Currently, the threat of new viable competitors in the carbonated soft drink industry is not very substantial. The threat of substitutes, however, is a very real threat.

The soft drink industry is very strong, but consumers are not necessarily married to it. Possible substitutes that continuously put pressure on both Pepsi and Coke include tea, coffee, juices, milk, and hot chocolate. Further possible threats include; • • • Changes in the non-alcoholic beverages business environment could impact its financial results. Obesity and other health concerns may reduce demand for some of its products. Water scarcity and poor quality could negatively impact the CocaCola system's production costs and capacity.

12 The Evaluation of the Business ; Financial Performance of " The Coca Cola Company" The highly competitive non-alcoholic beverages segment of the commercial beverages industry. Culture ; Believes Every business is made up of different cultures and the cultures that are present within the business depend on the management style and the organisational structures that are used. The different types of structures are: Role Culture This is best suited to a hierarchy organizational structure. This type of culture works best by every employee playing the role that he or she has been predetermined and

corresponds with the rules and regulations of the businessTask Culture This culture encourages people to work as a team; this works best in a star structure. Power Culture This works well in a matrix structure.

It is based around one dominant individual/leader. Person Culture This culture focuses on providing administrative help and support and close attention to one person in the organization. Role culture is the culture that Coca Cola adopts. This is where all members have a defined job or role to carry out. Role culture is normally split up into a number of functions that are organized in a hierarchical way. Coca Cola would divide themselves into various functions like accounts, marketing and production.

These also have hierarchical ordering of office examples of these are production director, production managers, supervisors, technicians, operatives etc. This type of culture works by logic and rationality. They also use task culture in which the employees from the I. T department might have to work together to teach their goal or target management style of Coca Cola. The culture of Coca Cola could have an affect on industrial relations, between managers and workers. So if Coca Cola didn’t have a warm and genial culture it would cause more disagreements between staff and managers and staff would not be motivated to work.

If the company had a warm culture then the managers and staff would get very well as staff would have less stress to compete with and would have a friendly environment to work in without having someone constantly shout out at staff. 13 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” Financial AnalysisFinancial ratios are termed as one of the most important tool used by analysts to evaluate and analyze the financial performance and position of an organization. Ratios are a relative measure and so they greatly facilitate comparisons of organizations from the same industries. Ratios also smoothens the procedure of comparing an organization's performance over time. To evaluate the financial performance of a company, a detailed analysis of financial statement is to be done by executing following steps: • Calculate useful financial ratios for a single company or group financial statements. Analyse and interpret ratio to give an assessment of the company's performance in comparison with: o A company's previous period's financial statements o Another similar company for the latest period Financial aspects like profitability, liquidity, gearing and investment are deeply analyzed by financial ratios in this research.

Several financial ratios are calculated using Microsoft Excel (see tables and charts). • Profitability Ratios: Profitability ratios help to determine trends in the profitability of an entity and further assist in the prediction of future financial prosperity. 1. Profit MarginProfit Margin ascertains the profit earned by an entity as percentage of total income. Profit for the year is divided by the total income to calculate the Profit Margin. Profit before taxation is generally thought to be a better figure to use then profit after taxation, because there might be unusual variations in the tax charge from year to year which would not affect the underlying profitability of the business operations.

High and increasing level of profit margins are required to pay sufficient amount of dividends to shareholders and retain enough earnings in order to finance future growth. The Profit Before Tax Margin Ratios of Coca Cola

Company and its competitor are given in the tables below: 14 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Description Revenue ($m) Profit before tax for the period ($m) Ratio PBT Margin Coca Cola 2007 28, 857 7, 873 27. 28% 2006 24, 088 6, 578 27. 31% 2005 23, 104 6, 690 28. 96% Pepsico Competitor 2007 39, 474 7, 631 19. 33% As can be seen from the above tables, Coca Cola marked a net profit margin of 27.

28% in 2007. This is less than the net profit margin of 27. 31% in 2006 and 28. 96% in 2005. Its competitor earned net profit margin of 19.

3% in 2007, which is much less then Coca Cola profit. The graphical representation of the ratios given below: PBT Margin: The Coca Cola Company and its Competitor With these figures it is quite obvious that Coca Cola has successfully maintained its Profit Margin, which shows the management's concerns towards funds management and control over the costs. Variation in profit margin in the 3 years under assessment is generally due to changes in some critical micro and macro economic factors. As per analysis done, variation in profit margin is not much high. 2. Return on Capital EmployedCapital employed represents shareholders' funds plus long-term borrowing.

Return on capital employed is the most commonly used measure of the profitability of a firm. It measures how effectively the company is using its capital. ROAE is calculated by dividing the net profits for the period with 15 The Evaluation of the Business ; Financial Performance of " The Coca Cola Company" average amount of equity. Analysts and investors look for organizations with high ROAE, as higher ROAE generally means high shareholder wealth and better return on invested capital. The ROCE of Coca Cola and its competitor are given in the tables below: Return on Capital Employed (ROCE) Description Net Profit Before Interest and Tax ($m) Capital Employed ($m) ROCE Coca Cola 2007 7, 252 30, 044 24.

14% 2006 6, 308 21, 073 29. 93% 2005 6, 085 19, 177 31. 73% Pepsico Competitor 2007 7, 170 26, 875 26. 68% As can be seen from above table, Coca Cola earned ROAE of 24. 14% in 2007.

There was a significant decrease of 19. 36% in the ROAE of Coca Cola from previous year 2006. In 2006, this ratio stood at 29. 93% and in 2005 it was at 31. 73%. Its competitor earns ROAE of 26.

68% in 2007. The graphical representation of the ratios given below: The Return on Average Equity Ratios of The Coca Cola Company and its Competitor It is clear from the above discussion that there is a clear downward trend in the ROAE of Coca Cola. This shows an inefficient utilization of shareholder’s funds, which is getting worse year by year. Decrease in the ROAE this year is a result of the significant increase in the Capital Employed of 42. 57% where as the profit increase with 14.

97%. 16 The Evaluation of the Business ; Financial Performance of “ The Coca Cola Company” Liquidity Ratios Liquidity ratios are used to measure a firm’s ability to pay its liabilities as they fall due. Liquidity is vital to the long-term success of an organization. Poor liquidity can damage a business greatly. Profitability helps to ensure that the organization is satisfying the shareholders by increasing their wealth, but liquidity helps to keep an entity a going concern.

Without sufficient cash or liquid assets, an organization would face problems in meeting its short-term expenses. 1. Current Ratio Current ratio is a famous measure of short-term liquidity of the business. Current ratio measures that how many time current liabilities can be paid out of current assets. Current ratio is calculated by dividing the current assets for the period with current liabilities.

Current ratio of Coca Cola and its competitor are given in the tables below: Description Current Assets ($m) Current Liabilities ($m) Ratio Current Ratio Coca Cola 2007 12, 105 13, 225 0. 92 2006 8, 441 8, 890 0. 95 2005 10, 250 9, 836 1. 04 Pepsico Competitor 2007 10, 151 17, 394 0. 58 As it can be seen from above tables, the current ratio of Coca Cola is on reducing trend.

In 2007, it is reduced 3. 6% to 0. 92 times from 0. 95 times in 2006. As far as this ratio is concerned, Coca Cola performed much better than its competitor.

Current ratio of Coca Cola is 56. 84% high from its competitor, PepsiCo. The graphical representation of the ratios given below: 17 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Current Ratios of Coca Cola & its Competitor Efficiency Ratios 1. Accounts Receivable Collection Period The accounts receivable collection period measures the average amount of time needed to collect a debt from a customer. It is calculated by dividing account receivable with sales revenue and multiplying 365.

ARCP of Coca Cola for three years and its competitor is given in the table below: Accounts Receivable Collection Period Coca Cola 2007 3, 317 28, 857 41. 96 2006 2, 587 24, 088 39. 20 2005 2, 281 23, 104 36. 04 Description Pepsico Competitor 2007 3, 670 39, 474 33. 93 Account Receivables ($m) Sales Revenue ($m) Period in Days Receivable collection period is showing continues upward trend.

In 2007, receivable days increased (7. 03%) from 39. 20 to 41. 96 days, where as competitor was on 33. 93 days.

A graphical presentation of increasing trend of account receivable is shown in the graph below: 18 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Increasing trend of Account Receivable Days Coca Cola from year 2005 to 2007 Competitor (PepsiCo) 2007 An accounts receivable collection period that is materially in excess of a company's typical credit terms is indicative of a collection problem. This may be caused by a lack of credit control, but it may also be explained by difficult trading conditions faced by company debtors generally. The longer a company takes to collect its debts, the higher the risk of bad debts occurring. 2. Accounts Payable Period Accounts payable are monies owed to suppliers that a company expects to pay within twelve months.

The accounts payable period is the length of time that a firm waits before paying creditor invoices. It is calculated by dividing the Accounts Payable with Cost of sales and multiplied by 365. Accounts payable period of Coca Cola and its competitor is given below: Description Account Payable ($m) Cost of sales ($m) Ratio Accounts Payable Period Coca Cola 2007 1, 380 10, 406 48. 40 2006 929 8, 164 41. 53 2005 2, 315 8, 195 103. 11 Pepsico Competitor 2007 2, 562 18, 038 51.

84 APP of Coca Cola shows a favourable trend in 2007 as compare to 2006, where as there was a huge slump in 2006 with a significant decrease of 60%. A graphical presentation of accounts payable period is given in the graph below: 19 The Evaluation of the Business ; Financial Performance of " The Coca Cola Company" Account Payable Days: Coca Cola from year 2005 to 2007 Competitor (PepsiCo) 2007 A long accounts payable period is generally desirable as the longer a company takes to pay invoices, the more it is able to benefit from what is effectively an interest-free loan from its creditors. However, a very long accounts payable period may strain relations with creditors and may also be an indication that the firm is cash-strapped. Debt and Gearing RatiosGearing ratios indicate whether a company's capital structure reflects a suitable balance between debt and equity. Debt is generally a cheap source of finance than equity, but high debt levels threaten the going concern of an organization. This is due to the increased amount of financial risk as well as high interest costs.

Organizations normally struggle to maintain a balance between debt and equity financing. The ideal ratio between debt and equity varies from industry to industry. The capital structure at which the market value of the organization's shares is maximized is the ideal capital structure for an entity. . Debt Equity Ratio Gearing is normally expressed by a firm's debt-equity ratio. This ratio measures the relationship between a firm's long-term debt and its shareholders' funds.

It thus gives an indication of the amount of further secured borrowing that might be undertaken. The debt-equity ratio is calculated by dividing the long-term debt with ordinary shareholder funds. Preferred stock is included as part of debt rather than equity since it carries the right to a fixed rate of dividend which is payable before the ordinary shareholders have any right to a dividend. Long-term debt would also include the value of long-term leases. Bank overdrafts and any other borrowings 20 The Evaluation of the Business ; Financial Performance of " The Coca Cola Company" repayable in less than one year would also normally be included in the total loans.

Debt Equity ratio of The Coca Cola and its competitor are given in the table below: Debt – Equity Ratio Description Long term debt and Preffered Stock ($m) Ordinary (common) Shareholder Funds ($m) Ratio Coca Cola 2007 3, 277 21, 744 15. 1% 2006 1, 314 16, 920 7. 8% 2005 1, 154 16, 355 7. 1%Pepsico Competitor 2007 4, 203 17, 325 24. 3% In 2007, Coca Cola has a debt equity ratio of 15. 1% with an increase of 94.

06%. This is due to increase in long term debt and preferred stock, which is 149. 39% high from previous year 2006. In 2006, this ratio was 7. 8% and in 2005, it was just 7.

1%. The increasing trend in the debt equity ratio of Coca Cola represents a consistent increase in the financial risk. However, Coca Cola still in better position as compared to its competitor who marked a gearing of 24. 3% which is 37. 88% high then Coca Cola's gearing. The graphical representation of the ratios given below: Debt – Equity Ratios of Coca Cola and its competitor PepsiCo 2.

Total Liabilities – Equity Ratio The total liabilities-equity ratio measures the ability of a company to pay all liabilities, short- and long-term. Therefore, as well as long-term debts, liabilities such as accounts payable, bank overdraft, etc. , are used in the liabilities figure. However, the total liabilities figure does not include preferred stock, which for this ratio is taken as part of shareholders’ funds. The total liabilities-equity ratio is calculated by 21 The Evaluation of the Business & Financial Performance of “ The Coca Cola Company” dividing the total liabilities with shareholders funds.

Total liabilities equity ratio of Coca Cola and its competitor is given in the table below: Description Total Liabilities ($m) Shareholder Funds ($m) Ratio Total Laibilities – Equity Ratio Coca Cola 2007 21, 525 21, 744 99% 2006 13, 043 16, 920 77% Pepsico Competitor 2005 2007 13, 072 17, 394 16, 355 17, 325 80% 100% Coca Cola marked total liabilities to equity ratio of 99% in 2007. Total liabilities to equity ratio showed a dangerous trend. In 2006, this ratio was at 77%. There is an increase of 28. 42% in this ratio from year 2006 and in 2005 it was at 80%.

In 2007, total liabilities of Coca Cola increased with 65. 03% from previous year 2006. The competitor also recorded high ratio of 100%. The graphical representation of the ratios given below: Total Liabilities – Equity Ratios of Coca Cola and its competitor PepsiCo The total liabilities-equity ratio indicates what margin of safety there is between the total asset values and the total of all outside liabilities. To the extent that these ratios are concerned with asset cover for borrowing, their value depends on the realistic valuation of assets. If they are used merely to illustrate how asset purchases have been funded historically, then the balance sheet figures do not need adjustment from the normal historical cost basis.

22 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Investment Ratios: Prospective investors and shareholders to analyze the value of an organization as a potential investment use investment ratios. The main concern of the investor or potential investor in a corporation is likely to be the return that they will make on their investment. They receive this return by way of income from dividends, capital growth from an increase in the share price, or a combination of income and capital growth. Some important investment ratios are analyzed in detail below: 1. Dividend Payout Ratio Dividend Payout ratio reveals the dividend paid out of the current year earnings as a percentage of current year earnings. It is calculated by dividing earnings per share after tax over cash dividends per share paid in the year.

Dividend payout ratio is widely used by investors and analysts to determine the intentions of the organization to pay dividends in the foreseeable future. Dividend Payout Ratios of Coca Cola and its competitor are given in the table below: Dividend Payout Description Dividend per Share ($) Earning per Share ($) Ratio Coca Cola 2007 1. 36 2. 57 53% 2006 1. 24 2. 16 57% 2005 1.

12 2. 04 55% Pepsico Competitor 2007 1. 43 3. 41 42% The dividend payout ratio of Coca Cola in 2007 was 53 5 which a quite less from previous year. In 2006 it was 57% with a little increase as compared to 55% in 2005. PepsiCo provided with low dividend payout ratio of 42%.

The graphical representation of the ratios given below: 23 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Dividend Payout Ratios of Coca Cola This shows the management concerns towards balance between retained profits in order to finance the future worthwhile projects and distributed profits for the satisfaction of short-term investors. This might be well attractive for long-term investors as they seek capital growth in their investment as well as short-term investors who seek dividends. 2. Earnings per Share (EPS)Earnings per Share (EPS) determine the amount of earnings attributable to every share issued by an organization. EPS is defined as the profit attributable to each equity share, based on the consolidated profit of the period after tax and after deducting, minority interests, preferred dividends and extraordinary items divided by the number of equity shares in issue and ranking for dividend in respect of the period.

Investors and analysts look for organizations with high and growing EPS to conclude a good financial performance. Earning per Share of Coca Cola and its competitor is given in the table below: Earnings Per Share (EPS)Description Profit Attributable to Equity Shareholders ($m) Weighted Average number of shares in issue & ranking for dividend Ratio Coca Cola 2007 5, 981 2006 5, 080 2005 4, 872 Pepsico Competitor 2007 5, 658 3, 519 1. 70 3, 511 1. 45 3, 507 1. 39 1, 782 3. 18 24 The Evaluation of the Business & Financial Performance of " The Coca Cola Company" Coca Cola reported an EPS of $1.

7 per share in 2007. In 2005 and 2004, the EPS was $1. 45 and $1. 39 respectively. There is a continuous growth in EPS in three years

underassessment. From 2006 to 2007 there is 19% prospective growth in EPS.

The competitor’s EPS is far high as compared to Coca Cola. PepsiCo earned an EPS of $3. 18 per share in 2007 which is 46 percent high as compared to Coca Cola’s EPS. It is due to less no of ordinary shares in PepsiCo. No of ordinary shares in Coca Cola is 97.

47% high then the PepsiCo. The EPS measure is mainly used in the computation of the price-earnings ratio and is rarely used on its own. Generally speaking, a high EPS indicates that each share of common stock is generating substantial earnings. The graphical EPS trend of Coca Cola is shown below: EPS: Coca Cola and its competitor PepsiCo