The superior performance of coca cola

The BusinessWeek (2009) recognized Coca Cola as one of the 50 companies that have demonstrated superior performance for 2009. Such distinction implies that the company achieved outstanding performance among other companies in the consumer staple sector, that is to say, Coca Cola is the best in its industry in terms of profitability and some other measures. Despite economic downturns in 2009, Coca Cola and the rest of the BW 50 were able to survive and even manage to excel in their operations thereby profiting amidst economic hardship.

The Coca Cola Company

Coca Cola is a global business that manufactures and sells concentrates, beverage bases, and syrups. It has the ownership of the Coke brand. The company relies on its bottling partners for the manufacture, packaging, sale and distribution of its branded drinks to customers (restaurant chains, grocery stores, convenience stores, street vendors, etc) and vending partners.

Coca Cola utilizes segmentation strategy to remain competitive. It diversified into various products starting in 1960 until today. Moreover, according to Warren Buffet the product and the Coca Cola brand are durable competitive advantage of the company and can bring in economic profits for its shareholders in the next succeeding years.

What Made Coca Cola Achieve Superior Performance?

Competitive Advantage.

Coca Cola has been operating in the industry since 1886 and is continue leading industry at this date. As the world's largest beverage company today, Coca Cola has business operation to more than 200 countries found in Eurasia, Africa, Europe, North America, Latin America, and the Pacific, marketing a portfolio of 500 brands and 3300 beverage products.

In 2009, Coca Cola ranked 26th in the BW 50 and bagged the recognition having the best brand name by the Interbrand. Commenter of the BW 50 especially mentioned that Coca Cola has triumphed over difficult times because of its innovative spirit. In particular, the company’s innovative strategy involves preserving the company’s values that made Coca cola remarkable and that is by taking its brand image of wholesomeness and family and friends and applying the values in a new category. Moreover, studies have shown that companies that invested in innovations during recessions have recorded the biggest jump in profits. The innovative spirit of Coca Cola is one of the key factors that contributed for the company’s superior performance, that is, its innovation strategy gave the company the competitive advantage over its competitors. A competitive advantage is something that provides incremental value when compared to other offerings, wherein value is the perception of how much the buyer benefitted beyond what was being paid in the product. In order to create value, the four P’s of marketing (that constitute the marketing mix) – product, price, place, promotion – have to be observed and practiced effectively.

Dwyer and Tanner (2006) assert that innovation can be in the form of innovative marketing strategy, innovative manufacturing processes or innovative corporate structure. Also, companies that display the innovative spirit were found to have a corporate culture that supported innovation. Such a culture is dominated by a desire for the company to grow, to improve and to take advantage of all possible opportunities. That is, innovative companies tend to focus on opportunity risk (Dwyer & Tanner 2006).

With regards to Coca Cola's strategy, the innovation comes in the form of innovative marketing strategy – embracing the values that made it famous.

Moreover, studies have consistently shown that key factors contribute to the likelihood of success of a company. One factor is vision, or the degree to which the development team shares a vision of what the new development project is supposed to accomplish. Another factor is a structured new product development process. Finally, having a long term perspective is another important characteristic. In many ways, these factors may be characteristics of an innovative culture. As Peter Drucker (1985) wrote, " When all is said and done, what innovation requires is hard, focused, purposeful work."

The literature also points five key components of success; namely close ties to well-defined market that lead to a product advantage; highly integrated and market-oriented company; competitive advantages in technology and production, strong marketing proficiency, and strong financial support.

First, if the company has close ties to well-defined market, then it is able to anticipate customer needs, creating a product advantage. In this case, product advantage is the dominant factor in success (Cooper and Kleinschmidt 1987). Second, there must be close coordination between all who participate in the new product development process. A market-oriented company selects its targets more wisely and offers a product mix better matched to customer preferences. Third, the company must have competitive advantage technology and production capability, with which the new product is a good fit. These first three factors should result in a product or service that is unique and delivers superior benefits.

The fourth element is that the company must have a strong marketing proficiency…The last but essential component is that the company must have strong financial support for its product launch and must take advantage of the marketing proficiency…These factors were identified in studies involving tangible products and services. In addition, it helps to choose a market with a high growth rate (Dwyer and Tanner 2006).

Coca Cola's focus on beverage creation and marketing enables the company to understand and meet the diverse and ever-changing beverage needs and desires of the consumers from all over the globe.

The magnitude of Coca Cola's advertising and distribution system enabled the company to easily market new non-alcoholic drinks as well as mineral water. Because of this, despite continuously changing consumer taste and preference, Coca Cola maintained its competitive advantage and lion's share in the industry. Moreover, Coca Cola marketing campaigns such as " It's the Real Thing", " The Pause the Refreshes", " Things Go Better with Coke" and the latest " Happiness" have further enticed more consumers to try the company's products. In effect of the strong marketing proficiency, the company has become a global selling company with about 1. 6 billion servings of products being consumed every day.

Coca cola growth strategy in three ways/directions during 1996 olympic games:

Emotional branding, the main idea was to let consumers experience the experience instead of product. Main focus was made on recognition of world’s diversity and individuality, and makes connection brand’s core ingredient. Company made it obvious to consumers that it recognizes its global status.

Artworks: Coca cola bottles were used as canvas by 53 artists from different countries to express their spirit, cultural values, customs and traditions. Some of the artworks were so successful that were put on permanent display at theWorld of coca cola in las vegas.

Just In Time advertising: during the Olympic games company ran 88 different TV commercials for 17 days. Each commercial was devoted to a particular theme of the Games and was never repeated. This is a very good example of global advertising campaign, as the advertisments ran simultaneously in 135 countries.

“…Another way Coca-Cola tackled this strategy was through art. With Coca-Cola bottles as the canvas, artists from 53 different countries created works of art using local materials while capturing the spirit of their native traditions and cultures. Among the works, a six-foot-tall replica of Stonehenge from England and a ten-foot bottle made of rattan, wood and grass from the Philippines. The artwork received amazing reviews as many of the bottles went on world tour. Some of the bottles have even been put on permanent display at the sWorld of Coca-Cola in Las Vegas to demonstrate the global power of the Coca-Cola Company that parallels with the international Olympic Games…The third way the company embarked upon this global growth strategy was with " Just In Time" advertising. Coke screened 88 separate television commercials, and over the 17 days of the Olympic Games, none of them was repeated. Each spot was also carefully bought to target that particular program's specific audience. The 17 commercials, one for each day of the Games, reflected the theme of the day and the latest Olympic news to the 135 countries the advertisement ran. These three global growth strategies proved very successful for Coca-Cola." (http://www. unc. edu/~jdee/creativestrategy. html)

Further, using the social media, Coca Cola have invested on archives that collect advertising as well as marketing materials. The archives document the crossing point between the company's products and its consumers. It contains advertising and marketing materials from the newspapers, magazines, radio, advertisements and commercials and also photo collection that depicts international and domestic distribution of Coca Cola's products. Blogs are then created that promotes the company with focus on heritage and pop culture. Through this resource, the company is able to get new information from the followers of social media. In this way, the company is learning new ideas helpful for future strategies. An example of this is the " Fan-based" strategy of Coca Cola, as cited from a literature:

"…Coca-Cola used the fan-based strategy in an attempt to differentiate itself from traditional Olympic advertising, which used athletes. The " For the Fans" campaign went into action with a series of ads featuring actual photographs of fans drinking Coke at Olympic Games from 1928 onward. The first two commercials aired during the week of March 6, 1996 and featured black and white photos from previous Olympics showing fans in Switzerland holding Coca-Cola bottles. In the next step, Coke focused on a series of ads highlighting real life stories about how Coke has made a difference to young aspiring athletes. Finally, for the third step, Coke used commercials, print ads, and posters that addressed whether the enthusiasm of the fans makes a real difference to the outcome of the sporting event. The answer was resoundingly yes." (http://www. unc. edu/~jdee/creativestrategy. html)

According to Dwyer and Tanner (2006) learning is when we connect new information to what we already know. Learning organization is one that consistently creates and refines its capabilities by connecting new information and skills to known and remembers requisite for future success. Organizational learning is the process of developing new knowledge that has the potential to influence behavior. Learning facilitates behavior change that leads to better performance. Many executive have said that the only truly sustainable competitive advantage is to be able to learn faster than competition, a contention supported by research.

Moreover, the company's competitive advantages are explored in the following: buyer bargaining power, supplier bargaining power, barriers to entry, intensity of competition and threat of substitute.

Among the customers of Coca Cola, the restaurants have the largest bargaining power. Coca Cola earns the largest profit margins from the large purchase volume made by authorized bottlers on its concentrates, in which the bottled beverages are then passed on the customers (restaurant chains). The overall bargaining powers of the buyers have given Coca Cola an average of 28% operating margin.

In terms of raw materials, Coca Cola established a good bargaining power with its suppliers. The company's financial situation, e. g., high and stable gross profit margin of 65% indicates that there is low risk for the bargaining power of the suppliers to affect Coca Cola's profitability. Also, high earning per capita of the company's employees reveals that the company has relatively low sensitivity to labor costs changes.

The company has established exceptional network of distribution system throughout the globe that enables the company to enjoy economies of scale, and hence a remarkable competitive advantage that created barriers for new entrants to participate in the industry. Also, the company's strong brand and large scale advertising provided the company a barrier to competition.

Further, the company's strong brands have reduced competition in the consumer staple sector.

Disruptive Innovation Theory:

Among the companies providing goods and services to consumers around the globe, only 10% are able to maintain and sustain a level of growth that is acceptable for the shareholders, while the rest of the 90% are not able to. Though these 90% have been applying the best strategies to make the business survive like investments on technological innovations, mindful of healthy competition and customers' feedback, these efforts are not enough. The requirements of long-term sustainable success not only include the right normal strategies but also disruptive strategies in innovation. The core principle of disruptive innovation theory is that the innovation made by companies tends to have a faster pace that the changes in the customers' lives. Hence, to maintain growth, a company must not only create innovations but also must be able to retain its core offerings and should always continue to practice sustainable innovation

In the case of Coca Cola, though the company has been operating for quite a long time already, and can actually be considered as a very old company in the industry, it continues to hold a large share in the industry and even expand its market. The reason is that though Coca Cola adapts innovations, it is still able to embrace the values that made Coca Cola remarkable in the first place. In particular, the company preserved its brand image of wholesomeness and family and friends and continuously applying the brand image to new categories.

Innovation Index

One indicator that Coca Cola engages in innovations is the Innovation Index published by the UTEK Corporation. The latest Strategos/wRatings Innovation Index result of the UTEK Corporation confirms that Coca Cola continues to be innovative, with index score of 78. 04 and leads the ranking of innovation performance of food and beverage companies. The SW Innovation Index is based on end-consumers' feedbacks on the tangible benefits that they have obtained for the companies' products.

Corporate Sustainability

In terms of corporate sustainability, Coca Cola initiated its " Commitment 2020" plan. The plan outlines Coca Cola's goals for the next 10 years which include minimization of water usage, reduction of carbon footprint by 15%, retrieval of 100% of the packaging and increase campaign on recycling. The company also plans to use local resources and pledge to eliminate potent greenhouse gases called HFCs (or hydroflourocarbons) by 2015.

Literature views Corporate sustainability as:

"…a new and evolving corporate management paradigm. The term paradigm is used deliberately, in that corporate sustainability is an alternative to the traditional growth and profit-maximization model…it recognizes that corporate growth and profitability are important and re requires the company to practice the goals of the society, especially those relating to sustainable development like economic development, protection of the environment, social justice, and equity…the concept borrows elements from four more established concepts: sustainable development; corporate social responsibility; stakeholder theory; corporate accountability theory. .. Sustainable development need for economic growth with environmental protection and social equity to meets the needs of present generations without compromising the ability of future generations to meet their needs… corporate social responsibility deals with the role of business in society with the premise that corporate managers have an ethical obligation to consider and address the needs of society, not just to act solely in the interests of the shareholders or their own self-interest…Stakeholder theory asserts that the stronger the company's relationships are with other external parties, the easier it will be to meet your corporate business objectives; the worse your relationships, the harder it will be. Strong relationships with stakeholders are those based on trust, respect, and cooperation… is corporate accountability is the legal or ethical responsibility to provide an account or reckoning of the actions for which the company is held responsible (www. sunstar. com. ph)".

The 2020 Vision of Coca Cola maintains that the company will ‘ double its global servings per day to 3 billion from 1. 6 billion and will double system revenue and improve margins’. If this is pulled-off as planned, along with their dividend payout and stock buybacks, it will create solid shareholder returns over a 10 year period.

In 2009, Coca Cola publicized its new plastic bottle made partially from plants. The PlantBottle is a fully recyclable bottle and is made from a combination of petroleum-based materials and plant-based materials. In this instance, Coca Cola have made an innovative product. Quoting from the company’s website:

“ The Coca-Cola Company – the first company to introduce a beverage bottle made with recycled plastic – has been focused on ensuring the sustainability of its packaging for decades. It has put resources behind creating packaging that is recyclable and investing in recycling infrastructure to ensure that its packages are collected, recycled, and re-used. Earlier this year, the Company opened the world’s largest plastic bottle-to-bottle recycling plant in Spartanburg, S. C. The plant will produce approximately 100 million pounds of recycled PET plastic for reuse each year – the equivalent of nearly 2 billion 20-ounce Coca-Cola bottles. These efforts are all focused on helping “ close the loop” on packaging use and produce truly sustainable packages for consumers (www. thecoca-colacompany. com.).”

Financial Performance

As one of the well-known companies worldwide, Coca Cola currently is trading at a reasonable value. At the end of 2009, the company has published an 8. 7 revenue growth, earning growth of 11%, and cash flow growth of 11%. The average annual dividend of the company is $1. 76 but entering 2010, the dividend yields 3. 26% with a 3-year dividend growth of 10%.

Coca Cola showed remarkable performance over the decades. The company's financial performances over the years are reflected in the table below:

2009

2008

2007

2006

Revenue Growth $B

30. 99

31. 994

28. 857

24. 088

Earnings Growth $B

6. 906

5. 807

5. 981

5. 080

Cash Flow Growth $B

8. 186

7. 571

7. 150

5. 957

Dividend Growth

Dividend $

1. 64

1. 52

1. 36

1. 24

Yield %

3. 28

3. 04

2. 5

2. 8

The financial health of the company is outstanding. Coca Cola's net profit margin is at 22% at the end of 2009, which is higher as compared to its competitors like PepsiCo (with only 14% net profit margin).

Analysts and investors also considered the cash flow as the life blood of any business. Cash flow is used as a core indicator of a firm's financial health and viability and it is considered as a good gauge to quickly judge a firm's financial performance. As an indicator, a negative cash flow, on one hand, indicates that the firm is financially troubled. No firm can keep on operating if cash flow is negative. On the other hand, positive cash flow, when cash is increasing, indicates that the firm is financially healthy (at least for the period) and can be able to pay its bills. In relation to this, Coca Cola's cash flow exhibits a growth of 11%, from $7. 571 billion in 1998 to $8. 186 billion in 1999.

In terms of dividend growth, the company has recorded increases in dividends for years in a row that made Coca Cola to be among the top in the list of dividend aristocrat. The current company's stock yields 3. 28%. The company's dividend has also increased by 7. 3%. Moreover, the company's payout ratio is currently at 56%.

Moreover, Coca Cola has a long-term debt-equity ratio of 0. 20 while the current debt-equity ratio is 1. 3

So, in terms of financial conditions, Coca Cola is financially healthy demonstrating a fairly good dividend growth. The company has the highest profit margins in the food and beverage industry, diversified brands, a strong brand, extreme international exposure, and a solid growth. The company's price-earning ratio is also playing a little above 18, which is not bad.

Further, the company has concrete revenue, earnings, and cash flow growth. The stock offers an above average dividend yield, and has been diligently increasing dividends over the past 48 years. This is the type of company that just works, period. You don't need billions of dollars in reinvested research and development to sell more Coke, and the products don't get replaced overnight.

The Return Driven Strategic Framework

The Return Strategy Model is based on three dimensions of performance namely superior and sustainable return on investment, growth while maintaining superior return on investment, and superior total shareholder return. The model serves as the fundamentals of business strategies. It is the result of combining extensive research and real world applications of great corporate performances over ten years or more. The strategy examines the commonalities in business strategies that have resulted to superior performance.

Using the Return Driven Strategic framework in evaluating Coca Cola's performance, the following points are highlighted so as to show that the company has indeed demonstrated superior performance. First, the company continuously innovate its offerings to better satisfy the needs of its customers, in which innovate is defined as ' changing' the company's product to better satisfy the needs of the targeted consumers. This is done through re-examination of their offerings, modification of the existing ones and development of new products that are perceived to better satisfy the unmet needs of the customers. Coca Cola continuously change its offerings since the company believes that by doing so, they are creating more value for the customers with the anticipated superior return on investment from the innovation. The value is of creating an intellectual and emotional connection between the consumers and the company’s offerings.

Another driving factor for Coca Cola’s superior performance is its strong commitment to and discipline for making shareholder value by focusing on return on invested capital. The company maintains goals, incentives and performance measures that are definitely in line with a sustainable return on investment. The Coca-Cola has been profiled as a company that has used Economic Value Added to create shareholder value. In fact, Coke’s value-creating business strategies have increased shareholder value. Moreover, Coca Cola have accomplished superior returns as well as growth without violating any ethical parameters of the community where its businesses are operating.

CONCLUSION

In today’s global, intensively interconnected business environment, a major challenge faced by business organizations is how to maximize shareholder value and sustain growth, while at the same time creating economic value for all.

For the leading Coca Cola Company the attainment of superior performance is a tough endeavor and it requires combinations of strategies. The remarkable strategy of Coca Cola is its innovation strategy that enables the almost 100 year old business excels and grows despite tough market pressures.