

# Coca-cola case study



Company Overview Coca-Cola drink was created in May 1886 by Dr. John Pemberton in Atlanta, Georgia.

In 1891, entrepreneur Asa G Candler gained ownership of the Coca-Cola business. Ernest Woodruff bought Coca-Cola for \$25 million in 1919. Coca-Cola gradually grew and became one of the world's largest soft drinks company. Although Coca-Cola also deals with non-carbonated drinks, its primary products are carbonated drinks. PEST Analysis The PEST Analysis is an analysis to examine the macro-environment of Coca-Cola's operations (Johnson, Scholes and Whittington, 2008). Political Like most companies, Coca-Cola is monitoring the policies and regulations set by the government.

There are no political issues in this instance. Economic There is low growth in the market for carbonated drinks, especially in Coca-Cola's main market, North America. The market growth recorded at only 1% for North America in 2004. Social There are changes in consumers' lifestyles.

Consumers are more health conscious. This affects the Coca-Cola's sales of the carbonated drinks as consumers prefer non-carbonated drinks such as tea, juices and bottled drinks. Demand for carbonated drinks decreases and this leads to a decrease in Coca-Cola's revenues. Technological As the technology advances, new products are introduced into the market. The advance in technology has led to the creation of cherry coke in 1985 but consumers still prefers the traditional taste of the original coke.

Porter's Five Forces Porter's Five Forces are the five forces that make up the competitive environment. It is used to better understand Coca-Cola's competitors and operations (Please refer to Diagram1) (Porter, 1998). Threat

of Entry It is not easy for new competitors to enter the industry and compete with Coca-Cola, thus the threat of entry is low. High capital is required to enter the industry and to sustain the business in the long run. It is also difficult to secure distribution as the distributions channels have been secured by existing players in the industry.

As such, new competitors are not able to enter the market to weaken Coca-Cola's position. Threat of Substitutes Consumers can choose from the variety of drinks that are available in the market. Due to the change in consumers' lifestyles, the threat of substitute is high. Consumers prefer healthier drinks compared to carbonated drinks, which resulted in a decrease in its revenue. Power of Buyers The power of buyers is high due to the switching cost of buyers buying another product is low.

Buyers can easily buy any drink products, which are readily available in the market. Power of Suppliers Power of suppliers is high. Few bottlers supply bottles to Coca-Cola and its competitors in the industry. Suppliers have the choice not to supply bottles to Coca-Cola.

It is not easy for Coca-Cola to find new suppliers, as there are not many bottling companies in the industry. Competitive Rivalry The competitive rivalry is high for Coca-Cola as competitors could easily enter into the market. There is high exit barrier as it is difficult for companies to leave the market easily due to the high production cost incurred. Coca-Cola is easily threatened by the introduction of new products in the market by its competitors. SWOT Analysis SWOT analysis is a common tool used by companies to understand its internal and external environment. SWOT

enables companies to have a cutting edge in the industry by remaining competitive (Please refer to diagram 2) (Johnson, Scholes and Whittington, 2008).

**Strength** Coca-Cola has been in the market since 1886 and has strong brand recognition. Consumers choose Coca-Cola as it is more popular and well known. This in turns results in more sales generated for Coca-Cola. As one of the world's largest soft drinks company, Coca-Cola produces large quantities of its products to sell in other parts of the world. Mass production enables it to supply its products to other parts of the world. This helps to decrease its expenditure cost incurred due to the larger quantities of production of its products.

**Weakness** Coca-Cola's primary market is the carbonated drinks, classic Coke. Reports showed that there are changes in the consumers' lifestyles. Consumers are more health conscious. Coca-Cola did not introduce any new products to be launch in this new industry. Instead, Coca-Cola tried to introduce new extensions to the brand Coke, like Cherry Coke, Diet Coke and Vanilla Coke, which leads to the decrease in its revenue due to the poor sales of its products. Coca-Cola is unrepresented in other markets and depends mainly on its carbonated drinks market, which is reported to have low growth, even in its leading market, North America.

It will be difficult for Coca-Cola to grow if its does not expand to other markets. **Opportunities** There are opportunities for Coca-Cola to buy up bottling companies and to keep them instead of selling them to other bigger bottling companies. This will enable the company to grow bigger and at the

same time, control the bottling markets. Coca-Cola is unrepresented in the health market. The company can expand their portfolio by acquiring companies that deals with the non-carbonated market, such as teas, juices and energy drinks.

**Threats** There are strong competitions in the industry with PepsiCo being the strongest competitor. PepsiCo had successfully introduced new products into the market and expanded their portfolio. On the other hand, Coca-Cola was not successful in introducing new products or extensions. Consumers preferred the classic Coke. Its attempt to enter the bottled water market with Dasani brand also failed and had to be withdrawn. Coca-Cola generates its revenue by charging its bottlers for the concentrates and syrups.

Coca-Cola does not own these bottling companies and therefore do not have any control over them. Bottling companies has a choice not to do business with Coca-Cola. They can also manufacture and sell their own products.

**Problems Faced by Coca-Cola** There was slow growth in the carbonated drinks industry. There was only 1% growth in Coca-Cola's leading market, North America.

Due to the health trends, tea, juices and energy drinks were more popular. People start to drink less of carbonated drinks. Pepsi has spotted this trend much earlier than Coca-Cola and enjoys more success in this area. In 2001, Coca-Cola's then CEO; Mr. Douglas Daft failed to convince the board to acquire Quaker Oats.

The main reason for this acquisition is the sports drink, Gatorade. PepsiCo later bought the company up. Coca-Cola also buys up small bottling

companies and sells them to bigger bottling companies, earning the profits. At the same time, Coca-Cola charges its bottlers a higher price for the concentrates. Coca-Cola should buy and keep those bottling companies, instead of selling them away. In this way, they are able to control the quality and pricings of the bottles.

They are also able to make sure that the bottling companies interests are in line with their own interests. Coca-Cola tried to introduce new products into the market, however was not so successful. Consumers prefer the classic Coke. PepsiCo on the other hand enjoys relatively good success on its new product launches such as Pepsi Twist. Coca-Cola Strategies Coca-Cola has been concentrating on marketing classic Coke. In order to remain competitive, Coca-Cola adopt product development strategy by launching a new innovate products in the market.

In 1999, Coca-Cola bought Schweppes mixer drink. However, their new products are not popular among consumers in the industry. Coca-Cola did not make any other requisitions to enhance its earning growth. Instead, Coca-Cola reduced its earning growth objective and retrenched its workers in a bid to make the company more nimble. PepsiCo has successfully introduced new products extensions such as Diet Pepsi and Pepsi Twist. PepsiCo has also forecasted correctly on potential growth in other markets and has acquired Quaker Oats in 2001 to represent them in the non-carbonated drinks market.

In my opinion, Coca-Cola faced a decline in its leading market due to the changing trends in consumers' lifestyles. Consumers prefer healthier drinks,

and this leads to a decrease in the sales of Coca-Cola. Coca Cola is also not active in the non-carbonated drinks market. It is reported that the growth in its leading market, North America was 0.5% in 2003. (Atlanta Business Chronicle, 2003) Coca-Cola has been in the non-carbonated market since 1886.

Coca-Cola has seen good growth in classic Coke when it was first introduced into the market. Over the years, Coca-Cola has grown and became one of the world largest soft drinks company. Coca-Cola tried to introduce new extensions to its main brand, classic Coke. However, the new extensions introduced were not well received by consumers who prefer the classic Coke.

However due to strong competition and no introduction of new products, Coca-Cola starts to face a decline. Coca-Cola might not be able to turn the situation around unless new products and marketing strategies are implemented. Leadership Styles Transactional Leadership Transactional leaders are leaders who follow the strategies that are already in place and try to improve on them. They do not have a specific style of their own. They keep operations running smoothly and solve the company's current problems.

Charismatic Leadership Charismatic leaders are well liked people They are self-confident and set directions for the company to move forward in the industry. They have the ability to explain their vision in clear and simple manners, which is understood by others. They are also more attentive to details. Coca-Cola had two CEO(s); Mr.

Douglas Daft from 2000 until 2004 and Mr. Neville Isdell from 2004 to present. Both Mr. Daft and Mr. Isdell are reported to have different leadership styles.

Mr. Douglas Daft, the former CEO of Coca-Cola, is reported to be a transactional leader while Mr. Isdell is reported to be a charismatic leader. Under Mr.

Daft's leadership, he proposed to acquire Quaker Oats, but was not successful, as he did not get the support of the board of directors. He could not convince the board of directors of the potential growth in Quaker Oats, where the key attraction is a sports drink called Gatorade. Mr. Isdell is a personable person who is accountable for most matters and is well liked. He has a team of people who is willing to work with him.

He is a team player, as well as a team leader. Mr. Daft establishes the direction of goals by clarifying role and task requirements. Staff receives rewards for their good performance. However, they are also accountable for any mistakes done.

Mr. Daft retrenched more than 5000 staff in 2001. In my opinion, Mr. Isdell's leadership style is more appropriate in moving Coca-Cola forward. He is able to express himself clearly and is willing to take responsibility. People also like him.

Under Mr. Isdell's leadership, Coca-Cola has moved forward in technological environment. He has also been environmentally green. The new bottle of Coca-Cola now uses 5% less polyethylene terephthalate (PET). It is also



easier to hold and open. This change in the new bottles has increase the revenue for Coca-Cola.

Coca-Cola has also grown and now owns more than 400 brands that include non-carbonated drinks. Corporate Cultures Under the leadership of Mr. Isdell, Coca-Cola has become more environmentally conscious. Coca-Cola has not only improved the quality of their bottles, in 2007, Coca-Cola has also tried to implement a re-sealable can for the classic Coke. Reports show that there are changes in consumers' lifestyles.

Consumers are not only more health conscious, they are also more environmental conscious. They do not want to see wastage. Coca-Cola tries to move towards this direction by introducing environmental bottles for their products. The new design will enable consumers to consume the drink at their own pace, instead of throwing the drink away when it has lost its carbonated effect.

This leads to an increase in revenue for Coca-Cola. Due to the leadership style of Mr Isdell, staff are highly motivate and relationship between staff improves which leads to high productivity. Coca-Cola also sees Brazil as a market of opportunities and plans to purchase Leao Junior, a Brazilian beverage company. Although Coca-Cola is the market leader in the Brazilian market, the sales' reports to decline from 2002 to 2005. Coca-Cola has also created a new drink, called Peartiser that is purely pear-based to be launched in the UK in January 2007 which they are targeting the female consumers between the age of 16-34 years of age to target the UK market (McCrorie, 2007).

The launched of the new product leads to an increase in the revenue for Coca-Cola in UK. Conclusion In conclusion, Coca-Cola has progress aggressively since 1981. Despite many competitive competitions with other companies like PepsiCo, Coca-Cola has managed to remain competitive in the drinks market. In my opinion, Coca-Cola will still be able to maintain its strong position in the industry and remain competitive in the long run.