

# External threats that face coca cola commerce essay



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The report provides a detailed analysis of the external environmental threats of coca cola as well as how it monitors its environment to deter all the possible threats that may exist /arise there from, to enable it maintain a competitive position over its key competitors in the persistent shrinking business world with its attendant intense and unbridled competition.

This report, in a bid to review of the current monitoring system of coca-cola, will take a problem/solution approach. This approach will help find out threatening environmental factors that affect decision making, and strategy formulation and the actualisation of the strategic intent of the coca-cola, such as economic regulations, tax changes, new laws, trade barriers, demographic change, and government policy changes among others.

Books, articles, journals and periodicals were reviewed, internet sources were also visited, to elicit information. The major threat identified were more of environmental, arising majorly from its sludge which was alleged to contain a high level of toxic chemicals, including cadmium and lead, both of which can be harmful to human and plants. The case of coca-cola plant in Perumatti in the southern state of Kerala in India was used as a case study.

Amidst these threats, key areas of opportunities for coca-cola were also identified. An epitome of this is its partnership with International Olympic Committee ( IOC) since 1928 and its recent renewal till 2020, covering a 12 - year pact from the Beijing 2008 Olympic Games through the Vancouver 2010 Olympic Winter Games, the London 2012 Olympic Games, the Sochi 2014 Olympic. (<http://www2.coca-cola.com/> )

Considering the level of uncertainty and changing circumstances in the international business arena, especially in the face of the looming economic down-turn, the report, proffered the following recommendations:

The use of environmental impact assessment , both before building a plant and afterwards.

development of daily/weekly/monthly reports which will keep it abreast of what's new and significant in the market especially at the street level.

the use of scenario planning which will constantly keep the company informed about what is happening in its marketplace as well as the gap between where they are, and where they intend to be.

The use of bench marking, to be able to find out the gap between what they are doing and those of their competitors.

development of essential competitor information which includes statements on strategy, new product development, marketing initiatives and key appointments and expansion plans and capacity variations.

development of spot pattern/ trends that will be able to identify weak signal and thus keep ahead of its competitors.

## INTRODUCTION

Not only is coca cola the world's largest beverage company, but in 200 nations ( with consumers enjoying an average of 1. 6 billion servings a day), sells about 500 sparkling brands, including 4 of the top sellers (coca- cola,

diet coke, sprite and fanta), sparkling beverages, juices, and ready to drink teas among others. (<http://www2.coca-cola.com/> )

Established: 1886 with its official headquarters in Atlanta, Georgia

Company Associates: 92, 400 worldwide (as of December 31, 2008)

New York Stock Exchange Ticker Symbol: KO

Supporting Communities - In 2007, The Coca-Cola Company and The Coca-Cola Foundation made charitable

Contributions of \$99 million to community initiatives worldwide. .

(<http://www2.coca-cola.com/> )

2008 Financial Highlights:

Our portfolio includes 13 billion dollar brands.

Unit case volume grew 5% to 23. 7 billion unit cases worldwide.

Net operating revenues grew 11% to \$31. 9 billion.

More than 70% of our net operating revenues and more than 75% of our unit case volume were generated outside of North America. (<http://www2.coca-cola.com/> )

With reference to SWOT analysis, PESTLE analysis and Porter's five competitive strategy, I am analysing the precarious regulations, tax laws, trade restrictions, tariff, demographic changes , in the business environment of coca-cola and a review of the current monitoring system of the external

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environment as well as proffering a recommendation, with regards to what coke could do better, to maintain and its competitive rim over its competitors.

## THE EXTERNAL ENVIRONMENT OF COCA-COLA USING SWOT ANALYSIS

### IT'S STRENGTHS

“ At the heart of strategic planning, is environmental scanning ; a process of studying the environment of the organization to pinpoint opportunities and threats”(Mathis, R. L, and Jackson, J. H: 47). To analyse coca-cola's environment, i am going to use SWOT and PESTLE analysis tools as well as the Michael porter's five of competitive strategy. This is so because, it is the developments in the macro business environment , relating to political, social, technological, etc that automatically create opportunities or threats and in turn, impact on the strategic development of coca-cola which may either bring success or mar its strategic intent.

For coca-cola, matchless opportunities abounds, which cannot be delinked from its strengths in innovation and product line expansion aggressive advertisement and promotions. According to Morrison, J.(2006: 130-1) “ coca- cola's strength has been in the carbonated soft drinks market, served by its flagship brand, coke, and promoted by global advertising campaigns”.

This has helped it build a strong brand recognition and brand loyalty, which is created by sets of positive associations that links the collector to the brand, thus building a relationship of trust, likability and loyalty(Jones, J. P 1999: 263). Coca-cola has built around all its brand some “ personality

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characteristics”(ibid: 253) which is not only unique but timeless. Coca-cola’s brand name is well known throughout 90% of the world today. Also of strength is the ‘ multi-local’ strategy which is in keeping with the company’s changing markets. Through this, local managers are enabled to devise their own marketing strategies and choose the products from the coke’s portfolio that are best suited to local tastes. Morrison, J.(2006: 132) Its implication is that every community of consumers is recognized and carried along, and this goes a long way to make them more loyal to coca-cola amidst other producers of similar product.

Another unequalled opportunity that coca -cola has is the long lasting historic bond with International Olympic Committee (IOC: (the organizers of the Games of each Olympiad, and approximately 200 National Olympic Committees around the world)) since 1928 and its recent renewal of this historic bond, through 2020 to cover the Beijing 2008 Olympic Games through the Vancouver 2010 Olympic Winter Games, the London 2012 Olympic Games, the Sochi 2014 Olympic. (<http://www2.coca-cola.com/> )

salt lake 2002

[www.thecoca-colacompany.com](http://www.thecoca-colacompany.com)

The Coca-Cola Company is proud to be the longest continuous corporate partner of the Olympic Games

**WEAKNESSES:**

Amidst coca-cola’s reputation of innovation, and recent product line

expansion, it is riddled with some weakness factors that pose some threats  
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that can be detrimental to the organization if unchecked, such as; lack of continuity of workforce, negative publicity and communication among others.

Negative publicity: Coke's flagship product; coca-cola classics is known to contain high levels of sugar and caffeine, contributing. In the recent times, this is causing uproar on the increasing health conscious world.

Communication gap: Due to the complex size of the organization, there exists a communication gap between the superiors at the top of the hierarchy and their subordinates at the bottom of the ladder. In effect, conveying ideas about fixing problems that may occur on the "street level" may be delayed.

Continuity of workforce: According to a 5 year employee of Kyle Hughes, Coke has a frustrating high turnover rate of retraining, averaging about 1,600 sessions per annum.

A PESTLE analysis will be done for a more understanding of the external environment of coca-cola. This will specifically look at how other external factors such as political, economic, social, technological, legal as well as environmental affect coca-cola.

#### EXTERNAL ENVIRONMENT OF COCA-COLA, USING PESTLE ANALYSIS

The analysis of coca-cola, using the PESTLE cannot be duly separated because these factors are inter-locked, and as such, a development in the environment, could affect the economic situation and as such call for political decisions to be taken, and vice versa.

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The political aspect of PESTLE looks at what is happening politically in the environment, the constraints the government has imposed or is likely to impose in future, Morrison, J.(2006: 30) This may also include tax laws, trade restrictions, government reforms and tariff. According to a report on Guardian of August 7, 2006, government policy affected coke in Gujarat, Madhya, Pradesh and Rajas in India as the selling of coke was banned in government offices and educational institutions which was estimated to deprive coke of a potential market of 30 million house hold.

The above assertion cannot be delinked from the environmental factors in which, it was perceived that the presence of coca-cola's plant in perumatti in the southern Indian state of Kerala had brought untold hardship to the host community as it was estimated that coca-cola uses an average of 1 million liters of water for its production on daily basis, thereby bringing about drinking water scarcity in the area. This according to the Guardian report, the waste sludge from the cleaning of its bottles was also seem by local farmers as detrimental to their farm lands as it was perceived to contain high levels of lead and cadmium. And lead according to Paul Brown; an environmental correspondent, in Guardian of 25th July,(2003), " is particularly bad for children, affecting their nervous system and cadmium if taken up by plants, is toxic to the kidneys and liver and can cause cancer". In the light of this therefore, the government resolved in public interest, not to renew its license which we can see has a political undertone.

The economic aspect looks at what is happening within the economy, example, economic growth/decline, interest rates and inflation rates, etc.

albeit, there has been an economic recession, coca-cola has been making <https://assignbuster.com/external-threats-that-face-coca-cola-commerce-essay/>



constant profit as can be seen in the recent fourth quarter report that was published in some periodicals.

Profit- \$6.82bn (£4.36bn) for 2009- a rise of 17% on the previous year

Sales increase: 4% on coca-cola, 10% coke's zero brand

55% profit and 5% global sales. (<http://news.bbc.co.uk/1/hi/business/8506495.stm>) and

Net operating revenue-: 5%, \$7.51 billion topping analyst forecast of 7.22 billion. (<http://www.nytimes.com/2010/02/10/business/10coke.html>)

#### PORTER'S FIVE COMPETITIVE FORCES

Another strategy used by coca-cola to monitor its environment is the use of Michael Porter's five theories. Michael Porter (1980) considers the external factors, that can impact upon an organization's competitive positioning, and thus identifies five competitive forces that govern the rule of competition and how the rules prevail in any organization, both at home and at the global market. A comprehensive understanding of the nature of each of these forces gives organizations the necessary insights to facilitate them to create the suitable strategies to be successful in their market. Porter further suggested that the relative strengths of these forces also determine the intensity of competition. These five forces are:

Threat of new entrants;

threat of substitutes/ replacement products;

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bargaining power of buyers;

bargaining power of suppliers, and

rivalries between firms of the same sector.

#### THREAT OF NEW ENTRANTS

Considering the brand loyalty, economies of scale, access to channels of distribution, etc, which coca-cola has acquired over the years, there is little or no threat for its products from new entrants into the non-alcoholic beverage sector. In the light of this, Coca-cola is place in a good competitive position.

#### THREAT OF SUBSTITUTES/ REPLACEMENT PRODUCTS:

##### Bargaining Power of Suppliers

This is very low for coca-cola considering the fact that there are variety of sources from which it can source inputs from. In other words, the supplier chain for its raw materials is reliable, fast, and prices are negotiable.

#### THREAT FROM COMPETITION

Coca-cola is a matured and dominant player in the worldwide soft drink industry , with a strong brand loyalty. Albeit, there exist the ' cola wars', between coke and Pepsi,

both of them basically share the entire soft drink market, making use of

harsh marketing, advertising and promotion tactics and this often lead to hampering profits between the two soft drink war-lords.

#### HOW DOES COCA-COLA MONITOR ITS EXTERNAL ENVIRONMENT?

An understanding that coca-cola does not operate in a vacuum has made it to continually scan its environment in order to find out or foresee likely environmental threats and thus develop appropriate responses to them. This has helped it to take advantage of its opportunities, and minimize threats and again, determines how it will achieve a sustainable competitive advantage.

Certain models and frameworks that can be used for this purpose includes: Scenario planning, customer surveys/ opinion polls, bench marking, among others.

Customer Surveys /Opinion polls: This is a strategy coke uses to find out the opinion consumer have about is products or other changes especially as it concerns its activities and those of its competitors. Over the years, coca-cola and Pepsi have been locked in fierce battles, sometimes described as “ the cola wars” Shimp, T. A (2007: 43). One sensational battle began in 1975 when the traditional coke was tested against Pepsi.( ibid) The result gotten informed a change in the coke’s formula for more sweetness, the result was that the folks who liked old Coke went crazy-so crazy that the Coca Cola Company decided to bring it back as Coke Classic.

(<http://www.highbeam.com/doc/1G1-3961611.html>)

Scenario Planning: “ Scenarios are realistic descriptions of the organisations possible futures that allow the scenario team to set aside its individual and organisational assumptions about how the external environment will operate and explore new ones ” (Ralston, B. 2006: 141) Coca-cola is constantly aware of the link between its strategy and the changing future, thus, itself for the ‘ if...then’ probable future. This is exemplified in its mission statement, thus:

“ the world is changing all around us. To continue to thrive as a business over the next ten years and beyond, we must look ahead, understand the trends and forces that will shape our business in the future and move swiftly to prepare for what’s to come. We must get ready for tomorrow today. That’s what our 2020 Vision is all about. It creates a long-term destination for our business and provides us with a “ Roadmap” for winning together with our bottler partners” ([http://www.thecoca-colacompany.com/ourcompany/mission\\_vision\\_values.html](http://www.thecoca-colacompany.com/ourcompany/mission_vision_values.html))

Benchmarking is the comparison of performance in one organisation or part of an organization against that in another, with a view to finding ways of improving performance. (Needle, D. 2004: 433) This avails the company the opportunity to take corrective measures actions.

### Recommendation

It is recommended that coca- cola should take immediate action to launch and promote environmental impact assessment of locations before citing their plants for operations. coca-cola should also

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The International Association for Impact Assessment (IAIA) defines an environmental impact assessment as “ the process of identifying, predicting, evaluating and mitigating the biophysical, social, and other relevant effects of development proposals prior to major decisions being taken and commitments made.”[1]