

# The implications on the coca cola company economics essay

[Economics](#)



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# **AC3550 INTERNATIONAL FINACIAL MANAGEMENT**

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### **Executive Summary**

This paper mainly considers the implications to The Coca-Cola Company from the financial crisis by analysing the balance sheet and the annual report (refers to appendix 1. The central aim is to figure out how The Coca-Cola

Company suffered from the financial crisis and how did they overcome it as well. Subsequently, all these above will be shown in detail by evaluating the gearing ratio and equity value and other statistics as well. And will also focus on China which I think should be of the greatest concern to the Coca-Cola Company.

## **Introduction**

As we all know, the economic crisis caused by the world economy had a huge impact, results in huge losses for lots of multinational corporations. The Coca-Cola Company as well, has suffered from the crisis.

## **2. The brief introduction of the financial crisis in 2008**

The financial crisis in 2008 which is also known as the Global Financial Crisis is the worst financial crisis since the Great Depression of the 1930s considered by lots of economists. The consequences of the crisis were very bad, such as the threat of total collapse of many big financial institutions, the bailout of banks by national governments and downturns in stock markets all over the world.

## **3. 1 The implications on The Coca-Cola Company**

i) Americans have had to reduce the purchase of various types of consumer goods and services course of the financial crisis. So the manufacturers of consumer goods had been forced to reduce production, cut costs and reduce its workforce. The Coca-Cola Company announced the layoff plan in order to reduce the impact of the financial crisis. ii) The financial crisis also adversely affected the liquidity and financial performance of The Coca-Cola Company.

Because of the unprecedented disruptions, the company was not able to

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access credit markets on favorable terms, and this would increase the cost of borrowing. In addition, the crisis had made it more difficult for Coca-Cola's bottling partners to access financing on terms as usual. This affected the system's profitability of Coca-Cola as well as the share of income of bottling partners. iii) The significant downturn in the equity market and in the valuation of assets precipitated by financial crisis and financial system instability affected the pension plan assets' value. The lower pension plan assets base could negatively affect the return and thus increase the pension expense. iv) In addition, the instability of major financial institutions which were caused by the financial crisis increased the ability of counterparty risk. This increase the cost of securing credit-worthy counterparties as future derivative transactions.

### **3. 2 How The Coca-Cola Company overcame the crisis.**

i) Invested more to increase market share, seize all the opportunities to contact with consumers around the world and increased advertising effort. Only in Chinese market, Coca-Cola advertisement spending reached to 6. 42 billion Yuan, which was 137% as the last year. ii) The Coca-Cola Company decided to restore the old tradition of recycling old bottles, this can save the cost by reuse the glass bottles which can be washed. This approach was even more necessary especially in the background of global financial crisis. The old bottle washing plant was set up in Russia, Turkey, the Philippines and Latin America. The Coca-Cola Company's management believed that the glass bottles Coke was more cost-effective than aluminum and plastic bottle of Coke. iii) " Lipstick effect" is always used to explain the preference trend of low-priced products during financial crisis. Although Coca-Cola originated

as "spiritual tonic", it did not want to become a image of cheap placebo which help people get out of their hard time temporarily. In the past 100 years, Coca-Cola has been in the global pursuit of this goal: When people feel thirsty, they will think of Coca-Cola, and will be able to find it. This goal makes Coca-Cola still vigor in this global financial crisis. iv) Expanding strong campaign in a financial crisis, is one of the key strategy that ensure the solid market position and growth performance of Coca-Cola Company during more than 120 years. Born in 1886, Coca-Cola has the opportunity to work with the U. S. economy to grow together and jointly through the storm. . In the most difficult economic times, by the imaginative slogan and mode of transmission, Coca-Cola developed from the initial simple banner "5 cents to buy a glass of Coca-Cola", to when people saw the Empire State Building built in the Great Depression of 1931, only think of it long like Coca-Cola step skirt bottle. Up to now, "Coca-Cola" has become the most well-known English vocabulary. Only after the "OK" .

## **4. 1 Corporate debt ratio analysis**

**Unit: million USD**

**To 2011-12-31**

**To 2010-12-31**

**To 2009-12-31**

**To 2008-03-31** **Table 1 : Data selection of Coca-Cola Company's balance sheet**

**Total Current Assets**

**25497. 00**

**21579. 00**

**17551. 00**

**12176. 00**

**Property / Plant / Equipment total assets**

**23151. 00**

**21706. 00**

**16467. 00**

**14400. 00**

**Total other debt**

**5420. 00**

**4794. 00**

**2965. 00**

**3011. 00**

**Total liabilities****48339. 00****41918. 00****23872. 00****20047. 00****Total assets****79974. 00****72921. 00****48671. 00****40519. 00**

The debt ratio is mainly reflected in the asset-liability ratio and equity ratio.

The gearing ratio reflects the ratio of capital to total capital provided by the creditor. This indicator is also known as the leverage ratio. The formula: debt

ratio = (total liabilities / total assets) \* 100% So for 2011 the debt ratio =

$48339/79974*100\%= 60. 44\%$  For 2010 the debt ratio=

$41918/72921*100\%= 57. 48\%$  For 2009 the debt ratio=

$23872/48671*100\%= 49. 05\%$  For 2008 the debt ratio=

$20047/40519*100\%= 49. 48\%$  The larger the gearing ratio is the greater risk

enterprises are facing, the stronger ability to gain profit. If the enterprise

funds rely on debt to maintain, lead to asset-liability ratio is particularly high

debt risk should pay special attention to. The asset-liability ratio in the 60% -

70%, more reasonable, steady; 85% and above, shall be deemed to issue a

warning signal, the enterprise should bring enough attention. As shown

above the gearing ratio of Coca-Cola Company were 49. 48%, 49. 05%, 57.

48% and 60.44% from 2008-2011. This shows that Coca-Cola is enlarging its gearing ratio because they overcame the financial crisis and began to gain more profit from year to year..



## 4. 2 The equity ratio

### Table 2: Data selection of Coca-Cola Company's balance sheet

**Unit: million USD**

**To 2011-012-31**

**To 2010-12-31**

**To 2009-12-31**

**To 2008-12-31**

**Total other debt**

**5420. 00**

**4794. 00**

**2965. 00**

**3011. 00**

**Total liabilities**

**48339. 00**

**41918. 00**

**23872. 00**

**20047. 00**

**The total share capital**

**31635. 00**

**31003. 00**

**24799. 00**

**20472. 00**

### **Total liabilities and shareholders' equity**

**79974. 00**

**72921. 00**

**48671. 00**

**40519. 00**

The equity ratio reflects the relative proportion of capital provided by creditors and shareholders. Reflect the company's capital structure is reasonable and stable. Also show that creditors invested capital by the degree of protection of the interests of shareholders. The formula: the equity ratio = (total liabilities / shareholders' equity) \* 100% For 2011 the equity ratio =  $48339 / (79974 - 48339) * 100\% = 152\%$  For 2010 the equity ratio =  $41918 / (72921 - 41918) * 100\% = 135\%$  For 2009 the equity ratio =  $23872 / (48671 - 23872) * 100\% = 96\%$  For 2008 the equity ratio =  $20047 / (40519 - 20047) * 100\% = 97\%$  In general, high equity ratio is high risk, the financial structure of the high-paying, low-equity ratio, the financial structure of a low-risk, low-reward. Shareholders who, in times of inflation, corporate debt, you can transfer losses and risk to the creditor; leverage can gain additional profits during the boom years; less borrowing can reduce the interest burden and financial risk in times of economic contraction. As can be seen from above that the equity ratio has become higher from 2008- 2011. This means that Coca-Cola used to finance itself in a safer way which related to lower risk and lower profit. But as they overcame the implication of the financial crisis, the equity ratio became much higher because they wanted more profit now.

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## **5. China---the greatest concern of Coca-cola Company**

### **i) Soft drinks' development trend in China**

The development of the soft drinks market began in China from the 1980s.

Today, it has grown into a large, mature market. Recent years, with the rapid economic growth and the continuous improvement of the urban and rural consumer income levels and spending power, prompting the beverage consumer demand is always in the stage of rapid growth. China's annual production of soft drinks growth rate is more than 20% now. Expansion of Coca-Cola sales in China and expansion of the scope of Coca-Cola in China would naturally increase sales.

### **ii) The population structure.**

China's new generation has increasingly frequent exchanges with foreign countries, and the foreign cultural awareness is higher. Awareness of Coca-Cola is also strong, remain on the line and it will help Coca-Cola to sell more and more products in the future in China.

### **iii) The economic conditions.**

If a country's levels of economic are not developed, people's lives are still a problem, then other consumer goods are more likely to be consumed.

Economic development directly determines the sales of the product. To know how to further develop the market, the economic situation analysis is essential. According to expert analysis, in the next few years China will be out of the economic crisis, and will develop even better, the consumer environment not only be more stable, and is getting better and better. So,

from the point of view of long-term, Coca-Cola to increase investment in order to further develops the market.

#### **iv) Political and legal**

The foreign investors are quite welcome in China. China has formulated a series of protection of the laws of the foreign companies and the introduction of the policy of a lot to offer foreign companies. And continue to improve the legal system, protection of investment for the future of foreign companies to bring more convenience and bring more economic benefits. So, it is quite easy for foreign corporations invest and develop new markets in China

#### **Conclusion**

From all above we can see that Coca-Cola has suffered a lot during the financial crisis. But cause of the right decisions they had made and the right movements they did, they overcame it successfully. The condition of the company has been better as the time passes. And as far as I concerned, China should be of the greatest concern to this multinational corporation course of many reasons.

#### **Appendix**

##### **Original data before selection:**

Unit: million USD

**To 2011-012-31****To 2010-12-31****To 2009-12-31****To 2008-12-31**

Cash and cash equivalents12803. 008517. 007021. 004701. 00Short-term investments1232. 002820. 002192. 00278. 00Cash and short-term investments14035. 0011337. 009213. 004979. 00Net receivables4920. 004430. 003758. 003090. 00Other receivables0. 000. 000. 000. 00Total Receivables4920. 004430. 003758. 003090. 00Total Inventory3092. 002650. 002354. 002187. 00Prepaid expenses3450. 003162. 002226. 001920. 00Total other current assets0. 000. 000. 000. 00Total Current Assets25497. 0021579. 0017551. 0012176. 00Property / Plant / Equipment total assets23151. 0021706. 0016467. 0014400. 00Accumulated depreciation-8212. 00-6797. 00-6906. 00-6074. 00Goodwill12219. 0011665. 004224. 004029. 00Intangible assets15450. 0015244. 008604. 008476. 00Long-term investment8374. 007585. 006755. 005779. 00Other long-term assets3495. 002121. 001976. 001733. 00Total assets79974. 0072921. 0048671. 0040519. 00Accounts Payable2172. 001887. 001410. 001370. 00Accrued expenses6837. 006972. 005247. 004835. 00Notes payable / short-term debt12871. 008100. 006749. 006066. 00Long-term Debt / Capital Leases2041. 001276. 0051. 00465. 00Other Current Liabilities, Total362. 00273. 00264. 00252. 00Total current liabilities24283. 0018508. 0013721. 0012988. 00Long-term liabilities13656. 0014041. 005059. 002781. 00Capital lease obligations0. 000. 000. 000. 00Total long-term liabilities13656. 0014041. 005059. 002781. 00Total debt28568. 0023417. 0011859. 009312.

00Deferred income tax4694. 004261. 001580. 00877. 00Minority  
interests286. 00314. 00547. 00390. 00Total other debt5420. 004794.  
002965. 003011. 00Total liabilities48339. 0041918. 0023872. 0020047.  
00Total redeemable preference shares0. 000. 000. 000. 00Net non-  
redeemable preference shares0. 000. 000. 000. 00Ordinary shares880.  
00880. 00880. 00Additional paid-in capital11212. 0010057. 008537.  
007966. 00Retained earnings (accumulated losses)53550. 0049278.  
0041537. 0038513. 00Treasury stock - common stock-31304. 00-27762. 00-  
25398. 00-24213. 00Other interests-2703. 00-1450. 00-757. 00-2674. 00The  
total share capital31635. 0031003. 0024799. 0020472. 00Total liabilities and  
shareholders' equity79974. 0072921. 0048671. 0040519. 00issued ordinary  
shares4526. 004584. 004606. 004624. 00