Analysis of Coca-cola's Characteristics and Financial Indicators

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Abstract. Coca-Cola is by far the world's largest beverage company, with a market share of 48 percent worldwide. Coca-Cola was founded in 1886. From a drink sold only in drugstores to a famous cola in more than 200 cities, the company has made a lot of changes. Coca-Cola has become a benchmark in the global beverage industry, and some of its decisions or strategic changes may affect the global economy. Therefore, understanding the basic information and financial situation of Coca-Cola Company is a required item for many companies and individuals. Through SWOT analysis and calculation of some financial ratios (comparing Coca-Cola and Pepsi), this paper conducts a analysis and provides suggestions on the strengths, weaknesses, external opportunities, external threats and financial conditions of Coca-Cola. According to the analysis, Coca-Cola should do more research and development to make its products more novel, and it should reduce the production cost appropriately and strive for greater profit space. Secondly, Coca-Cola needs to sell a large number of inventory goods as soon as possible, replan the inventory number of products, and strengthen the operation of funds. The final recommendation is that Coca-Cola is a good company for people to invest in.

Keywords: Coca-Cola; SWOT; Fundamental Analysis; Ratio.

1. Introduction

1.1 Background

Coca-Cola is the world's largest beverage company. It is one of the world's top 500 enterprises, with a market share of 48% of the global market. Coca-Cola was founded in 1886. At the beginning, Coca-Cola only sold in drugstores with very low profit. After more than 100 years of evolution, Coca-Cola has become the benchmark of the global beverage industry, and its products have been spread across more than 200 cities, which can be called a beverage empire. Therefore, the significance of Coca-Cola's existence is not only to promote and sell its own products, but also to shoulder the responsibility of leading the global beverage industry to glory. Coca-Cola owns carbonated drinks, sports drinks, dairy drinks, coffee and tea drinks. Among them, the most popular drinks are Cola, Sprite and Fanta, which are available in every supermarket around the world. As the benchmark of the beverage industry, some small changes of Coca-Cola company may affect the global economy, so Coca-Cola company will be very cautious about the changes of the company. This article will introduce and analyze the basic situation of Coca Cola Company.

1.2 Related Research

In these articles, the SWOT analysis method is used to study Coca Cola Company. Firstly, Panigrahi outlined many aspects of the Coca-Cola Company. For example, it briefly introduces the Coca-Cola Company, its nature, quality policy, working mode, product profit, ownership structure, performance, future prospects and so on. He also used Porter's five forces model and SWOT analysis to analyze the Coca-Cola company [1]. Secondly, Smith used SWOT analysis, PESTEL analysis and Forced Field analysis to analyze and discuss the driving factors, and studied the management and leadership of organizational environmental change in Coca Cola Company. The conclusion of this study is that leading an organization to change is very difficult and should pay attention to the influence of various internal and external factors on the company [2]. Thirdly, Susilo analyzed Coca-Cola's business strategy when entering the Indonesian market and its international market entry, and found out the internal and external factors affecting Coca-Cola's business in Indonesia through SWOT analysis, so as to put forward suggestions to strengthen the strategy. As we all know, Coca-Cola first entered the Indonesian market through foreign investment, and later it decided to expand the market in Indonesia. Surprisingly, they opened up franchising opportunities, and because they had the secret ingredient, they could offer differentiation to stay competitive. Such transnational strategies are characterized by strong responsiveness to local changes and a high degree of global integration. At the same time, the SWOT analysis shows that Coca-Cola should prioritize market penetration and then market development for now. Companies should focus on sales and distribution in specific markets, rather than developing more markets for their products now [3].

Several articles have examined matters related to Coca-Cola's main business. Firstly, Nair et al. studied the impact of COVID-19 on international business strategy with support from Coca-Cola. They collected their data by sending out questionnaires via email and interviewed a total of 250 Coca-Cola employees. The purpose of the visit was primarily to analyze the Coca-Cola Company's global strategy and operations during the COVID-19 pandemic. The net result is that the proportion of people who buy Coca-Cola products through online shopping platforms has increased during the pandemic [4]. Secondly, Deshpande et al. analyzed consumer purchasing behavior in India and Malaysia in order to study the demand of Indian and Malaysian consumers for the changing beverage industry and the strategies and activities adopted by Coca-Cola to occupy the market over the years. They conducted a sample analysis of 180 respondents from two countries in the form of a questionnaire, and on the basis of the analysis, made a summary of Coca-Cola Company and put forward some suggestions to improve the company's performance [5]. Thirdly, Sultan et al. assessed brand perception and loyalty among Coke and Pepsi consumers by analyzing a sample size of 50 beverage consumers (Pepsi and Coke) collected using Microsoft Office 2010. The results show that most consumers are more interested in Coca-Cola, and they prefer Coca-Cola because it has a stronger taste. Therefore, the overall research survey of Coke and Pepsi shows that Coke is more popular with consumers than Pepsi [6]. Fourthly, Gardner et al. take Coca Cola Company as an example to teach and estimate the sustainable growth of Coca Cola Company through the extension of DuPont analysis system of its corporate financial analysis. The DuPont System is based on a company's net profit margin, total asset turnover and equity multiplier, while the extended DuPont system estimates sustainable growth by multiplying the sum (return on equity) by earnings retention [7].

Polonsky took Coca-Cola as an example to talk about green marketing in the article, including introducing green marketing, the importance of environmental protection, some reasons for enterprises to adopt green marketing and some problems of green marketing. The Coca-Cola Company has invested heavily in various recycling initiatives and modified its packaging to reduce pollution to the environment. At the same time, Coca-Cola doesn't have a marketing thing, so most people don't know that Coca-Cola is a very committed environmental organization. [8].

Klein used content analysis as their approach, organized around the rhythms, melodies, and harmonies of music to study how one of the world's most powerful advertising and marketing companies, the Coca-Cola Company, conveys emotion through the main ingredients of music. It turns out that these elements are used correctly in the Coca-Cola Spot, where music directly conveys feelings and emotions related to happiness. This happy feeling has long been part of Coca-Cola's brand image. [9].

1.3 Objective

As the benchmark of the beverage industry, Coca-Cola Company's decision changes are likely to affect the global economy, so this paper will carry out some analysis on Coca-Cola Company. Firstly, SWOT analysis method is adopted to make simple analysis and suggestions on the advantages, disadvantages, external opportunities and external threats of Coca Cola Company. Secondly, by calculating the ratio of Coca Cola and Pepsi Cola and comparing the data of the two companies, it can get some financial conditions of Coca Cola Company, and carry out simple analysis and discussion on this basis. Finally come to the conclusion.

2. SWOT

2.1 Strengths

As a giant in the beverage industry, Coca-Cola has many strengths. First of all, Coca-Cola has a large market share. Coca-Cola is the largest beverage company in the world, accounting for about 20% of the market in 2020 and it has a strong competitiveness [10]. This is because Coca-Cola has a long history of accumulation and the brand is very good at promoting the product. The second is that Coca-Cola has a cost advantage and is known for low prices. Coca-Cola has a cost advantage through economies of scale. This is due to its large number of production lines and sales. The production base is large so the amortized cost is small. Therefore, compared with other competitors, Coca-Cola has a cost advantage and reputation for low price. Third, Coca-Cola has excellent marketing ability and high brand value. Almost everyone in the world has seen an advertisement for Coca Cola and has a deep impression of "Coca Cola Red". The excellent marketing ability of Coca Cola also makes this brand have super high commercial value, so Coca-Cola can earn a lot of co-branding fee every year even without selling drinks. Fourth, Coca-Cola has many sales channels. In addition to selling it separately, Coca-Cola also sold in many food and beverage industries, such as Subway. It can also be sold in supermarkets of any size. Fifth, Coca-Cola has a strong ability to innovate. Every once in a while, Coca-Cola will have some innovation, such as new product development, new flavor, upgraded packaging and so on.

2.2 Weaknesses

Coca-Cola is a global beverage industry benchmark, but it has some weaknesses. The first is that the product is not novel enough. Although the Coca-Cola Company has been innovating for years, most people can think of only one product, Coca-Cola. This leads people not to buy Coca-Cola because of no novelty. Secondly, people have bad stereotypes about carbonated drinks. Different from the previous era, in today's society, people are paying more attention to their health, and many people are rejecting carbonated drinks.

2.3 Opportunities

Coca-Cola has a lot of external opportunities, the first of which is that it should create some new flavors that taste good. Despite its ability to innovate, Coca-Cola's new flavors are often poorly received. It should use this advantage to produce more new flavors that people like. Second, Coca-Cola should create something new besides cola. Coca-Cola Company can produce some other products, such as biscuits, bread and so on. With the brand value of the Coca-Cola Company, the sales of the new product will not be low. Third, Coca-Cola can cooperate with other brands. Coca-Cola should play to one of its strongest strengths, commercial value. Co-branded products with other brands can significantly increase Coca-Cola's revenue.

2.4 Threats

The first threat to Coca-Cola comes from Pepsi, which was also excellent. For many years, Pepsi, Coca-Cola's biggest competitor, was very similar to Coca-Cola in many ways. Pepsi will gain a lot of Coca-Cola’s customers if Coca-Cola company doesn't do something about it. The second threat is that other drinks are becoming more popular. In recent years, milk tea, fruit tea and other drinks have gradually entered the public's vision, and won the love of people all over the world. Importantly, they are healthier than carbonated drinks.

3. Fundamental Analysis and Discussion

3.1 Profitability Ratios

For the gross profit margin, Coca-Cola are 60.27% in 2021 and 59.31% in 2020. Pepsi-Cola are 53.35% in 2021 and 54.82% in 2020.

$$\text{Gross profit margin} = (\text{Gross Profit} / \text{Revenue})\times 100\% \quad (1)$$

Coca-Cola's data are higher than Pepsi's in both years. This implies Coca-Cola has a slightly increasing figures which means it has a well control of quality, selling price and the cost of raw materials.

For the net profit margin, Coca-Cola are 25.36% in 2021 and 23.53% in 2020. Pepsi-Cola are 9.66% in 2021 and 10.20% in 2020.

$$\text{Net Profit Margin} = \text{Net Profit}/\text{Revenue} \quad (2)$$

Coca-Cola's data are higher in both years. As shown in Table 1, Coca-Cola's increased slightly, which indicates that the net profit per unit of revenue is very high, and Coca-Cola's profitability is very strong.

For the ROE, Coca-Cola are 42.63% in 2021 and 40.25% in 2020. Pepsi-Cola are 47.87% in 2021 and 53.33% in 2020.

$$\text{Return on Equity (ROE)} = (\text{Net income} / \text{Equity (Shareholders' Funds)}) \times 100\% \quad (3)$$

Pepsi-Cola's data are higher in both years. While Coca-Cola's numbers are growing slowly, they are still lagging behind its competitors overall. The profits distributed by shareholders are relatively small, and the profitability of the project is relatively weak. The equity invested by the owners has increased, but the funds raised by the investment projects have not achieved immediate benefits.

For the ROCE, Coca-Cola are 16.87% in 2021 and 15.14% in 2020. Pepsi-Cola are 21.44% in 2021 and 18.73% in 2020.

$$\text{Return on Capital Employed} = (\text{Profit before income and taxation} / \text{Capital Employed}) \times 100\% \quad (4)$$

Pepsi-Cola's data are higher in both years. Coca-Cola's investor money has been used less effectively to generate profits than Pepsi's. Coca-Cola's credit rating would also fall. Shareholders are more likely to choose to invest in other companies if, by contrast, they feel their return on capital is not as good as that of their competitors. In order to improve ROE and ROCE, Coca-Cola should appropriately reduce the costs of products, equipment and labor, strive for greater profit space, and make shareholders' funds more efficient.

Table 1. Profitability ratios

Financial ratios comparison	COCA-COLA		PEPSI-COLA	
	Dec.31，2021	Dec.31，2020	Dec.25，2021	Dec.26，2020
PROFITABILITY RATUOS				
Gross profit margin	60.27%	59.31%	53.35%	54.82%
Net profit margin	25.36%	23.53%	9.66%	10.20%
Return on equity	42.63%	40.25%	47.87%	53.33%
Return on capital employed	116.87%	15.14%	21.44%	18.73%

3.2 Liquidity Ratios

For the current ratio, Coca-Cola are 1.13:1 in 2021 and 1.32:1 in 2020. Pepsi-Cola are 0.83:1 in 2021 and 0.98:1 in 2020.

$$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities} \tag{5}$$

Coca-Cola's data are higher than Pepsi-Cola in both years. Coca-Cola has stronger ability to pay its day-to-day expenses, and it has enough liquid assets to cover any upcoming liabilities.

For the quick assets ratio, Coca-Cola are 0.96:1 in 2021 and 1.09:1 in 2020. Pepsi-Cola are 0.66:1 in 2021 and 0.81:1 in 2020.

$$\text{Quick assets ratio} = (\text{Current Assets} - \text{Closing Inventory}) / \text{Current Liabilities} \tag{6}$$

Coca-Cola's data are higher than Pepsi-Cola in both years. This data further proves that Coca-Cola has the ability to pay for daily expenses.

Table 2. Liquidity ratios

Financial ratios comparison	COCA-COLA		PEPSI-COLA	
	Dec.31，2021	Dec.31，2020	Dec.25，2021	Dec.26，2020
LIQUIDITY RATIOS				
Current ratio	1.31:1	1.32:1	0.83:1	0.98:1
Quick assets ratio（acid ratio）	0.96:1	1.09:1	0.66:1	0.81:1

3.3 Efficiency Ratios

For inventory holding period, Coca-Cola is 79 days in average and Pepsi-Cola is 42 days in average.

$$\text{Inventory holding period (in days)} = (\text{Average inventory} / \text{cost of sales}) \times 365 \tag{7}$$

Coca-Cola's inventory holding period is longer. This suggests that Coca-Cola may be at risk of obsolescence and inventory depreciation. Coca-Cola should increase sales appropriately to sell out the inventory as soon as possible. They can also adjust their inventory and production plans to reduce the number of products in stock, advance revenue and reduce risk.

For receivables collection period, Coca-Cola is 31 days in average and Pepsi-Cola is 39 days in average.

$$\text{Receivables collection period (in days)} = (\text{Trade Receivables} / \text{Revenue}) \times 365 \tag{8}$$

Coca-Cola's receivables collection period is shorter and slightly decreasing. The payment is received more quickly than it's competitors.

For payable payment period, Coca-Cola is 306 days in average and Pepsi-Cola is 200 days in average.

$$\text{Payable payment period} = (\text{Trade Payable} / \text{Cost of Sales}) \times 365 \tag{9}$$

Coca-Cola's payable payment period is longer. Although this may cause suppliers to be unwilling to continue cooperation or increase supplier prices, in the case of Coca-Cola, suppliers have high dependence and low conversion capacity, so this risk is relatively weak.

For working capital cycle, Coca-Cola is -196 days in average and Pepsi-Cola is -119 days in average.

For dividend yield, Coca-Cola are 3.1% in 2021 and 3.0% in 2020.

$$\text{Dividend Yield} = (\text{Dividend per share}/\text{Market price per share}) \times 100\% \tag{10}$$

Both data are negative figures, but Coca-Cola's data is more lower. A negative figure means customers pay before suppliers. This is effectively a free source of funding. In general, Coca-Cola's capital cycle is very favorable to the company itself. Customers pay in advance, suppliers pay late. The funds can be effectively used for other investment projects, creating greater profits.

Table 3. Efficiency ratios

FINACIA LRATIOS COMPARISION	COCA-COLA		PEPSI-COLA	
	Dec.31，2021	Dec.31，2020	Dec.25，2021	Dec.26，2020
EFFICIENCY RATIOS				
Inventory holding period	79 days		42 days	
Receivables collection period	31 days		39 days	
Payable payment period	306 days		200 days	
Working capital cycle	-196 days		-119 days	

*Foot note: Using the average balance of inventory, receivable and payable to calculate

3.4 Investment Ratios

For EPS, Coca-Cola are $2.26 in 2021 and $1.80 in 2020.

$$\text{EPS} = \text{Profit after tax and preference dividends} / \text{Equity shares in issue} \tag{11}$$

It must be provided at end of income statement with workings in notes. This Indicates that the operating capacity per share of Coca-Cola stock is lower than that of Pepsi, Coca-Cola should formulate plans for product production and sales to relatively increase profits and increase EPS. Otherwise, shareholders may more likely to buy other companies' stock markets.

For P/E ratio, Coca-Cola are 23times in 2021 and 30times in 2020.

$$\text{P/E Ratio} = \text{Market price per ordinary share / EPS} \tag{12}$$

It represent the relationship between earnings and market price. It has important benchmarks for industry averages. The low P/E ratio of Coca-Cola indicates that the stock price is likely to be undervalued, there is a lot of room for profit in the future. Also, the cheap stock can conduct to more buyers. Coca-Cola should continue to maintain a relatively low P/E ratio.

For dividend cover,Coca-Cola are 1.9 in 2021 and 1.83 in 2020.

$$\text{Dividend Cover} = \text{Profit after Tax less Preference Dividend / Ordinary Dividends} \tag{13}$$

High cover indicates that the company implements a conservative dividend policy. On the other hand, a low dividend cover ratio may indicate that the company is having difficulty maintaining an acceptable level of dividends. Coca-Cola’s data is higher in both two years and the data is constantly move. Coca-Cola's high coverage ratio indicates that the company adopts a conservative dividend policy, and it can also be seen that Coca-Cola does not run the risk of having difficulty maintaining acceptable dividend levels.

For dividend yield, Coca-Cola are 3.1% in 2021 and 3.0% in 2020.

$$\text{Dividend Yield} = (\text{Dividend per share/Market price per share}) \times 100\% \tag{14}$$

This ratio is an indicator of the cash return common shareholders receive from their investments. While a lower dividend rate may deter investors who view stocks primarily as an income source, even a 0% dividend rate may not deter investors who focus primarily on capital growth. Coca-Cola’s data is higher in both two years and the data is constantly move. Coca-Cola's common stock dividend per share accounts for a higher percentage of the market price of common stock per share, which indicates that the cash return on investment of common shareholders will also be higher. This will help attract investors who see stocks as their main source of income, allowing more people to invest in businesses and create wealth for the firm.

For capital gearing ratio, Coca-Cola are 62.37% in 2021 and 67.52% in 2020.

$$\text{Gearing ratio} = \text{long-term debt / (shareholders funds + long-term debt)} \tag{15}$$

It shows the relative use of equity and debt capital in financing the firm’s long-term activities. Too high and the firm faces the risk of financial distress and bankruptcy. Too low and the firm may be missing out on tax benefits and cheaper financing. From the table, we can see that in past two years,the gearing ratios are both relatively high. This is resulted from a significant increase in long-term debt. In 2021, Coca-Coca Company decided to issue more shares to reduce its gearing ratio to 62.37%, but in other hand, it dilute the existing shareholders by 0.01$ per share.

For interest cover, Coca-Cola are 6.5 times in 2021 and 6.3 times in 2020.

$$\text{Interest cover} = \text{profit before interest and tax / interest payable} \tag{16}$$

It quantifies the capacity of the firm to meet interest payments due out of operating profits. This ratio is particularly important for loan providers. Coca-Cola's high interest guarantee numbers suggest that lenders are in a relatively safe position and that the company's profits could fall sharply ahead of any potential missed interest payments.This will help Coca-Cola get the support and trust of more lenders, and will have the opportunity to raise more funds to generate profits.

Table 4. Investment ratios

FINACIA LRATIOS COMPARISION	COCA-COLA		PEPSI-COLA	
	Dec.31，2021	Dec.31，2020	Dec.25，2021	Dec.26，2020
INVESTMENT RATIOS				
Earning per share（EPS）	$2.26	$1.80	$5.51	$5.14
Price earnings ratio（P/E ratio）	23 times	30 times	29 times	28 times
Dividend cover	1.9	1.83	1.49	1.51
Dividend yield	3.10%	3.00%	2.70%	2.80%
Capital gearing ratio	62.37%	67.52%	69.19%	75%
Interest gearing ratio	6.5 times	6.3 times	6.0 times	7.0 times

4. Conclusion

This paper studies the background, strengths, weaknesses, external opportunities, external threats and four kinds of financial indicators of Coca Cola Company. Among them, there are a number of main findings and suggestions. Through SWOT analysis, it can be concluded that Coca Cola is a company with high market share and cost advantages and high brand value. But its products are not new enough, and it needs to create some new flavors and other non-beverage products that people like. By calculating some financial indicators of Coca-Cola and Pepsi and comparing them, it can be concluded that Coca-Cola has a series of advantages such as higher profits, stronger asset liquidity, less liabilities, short receivables collection period, long payables payment period, high dividend yield and high interest cover. However, Coca-Cola has a lower ROCE, a longer inventory holding period and working capital cycle, and a lower EPS. Coca-Cola should appropriately reduce the costs of products, equipment and labor, strive for greater profit space, and improve the efficiency of shareholders' funds. It also needs to sell a lot of inventory goods as soon as possible, reduce the stock of products again, and strengthen the operation of funds. From this, through comparative analysis, the benefit of investment in Coca-Cola is higher than that of investment in Pepsi.

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