

The dilemma of Coca-Cola and its transformation

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Abstract. With the progress of society, people pay more and more attention to health. The sugar water that swept the world in the past: Coca-Cola's status is not as good as it used to be. In other words, carbonated drinks are not as popular as they used to be. Coca-Cola also faces competition from its peers, such as monster, Pepsi and Nestle and also new and creative companies. Based on the financial report data of Coca-Cola in recent years, the SWOT analysis method is used to study the current situation and the possibility of future development of Coca-Cola. The study found that Coca-Cola still has the possibility of transformation, the dilemma it faces still has solutions, that is, change the core from 'happiness to health' and change people's stereotype that Coca-Cola company's products are all sugar water. What's more, utilize Coca-Cola's strong financial strength to adopt some necessary strategies to defeat other competitors.

Keywords: Coca-Cola; SWOT; Dilemma; Transformation; Strategy

1. Introduction

"The brand image of Coca-Cola doesn't make the consumer very directly think 'I can't wait to drink it right now', but at some points inadvertently, the consumer thinks he can make friends through a bottle of Coca-Cola." Ryan Goodwin, chief marketer at Live Vantage, an American health supplement company, said. As one of the most famous drinks in the world, Coca-Cola has a 137 years history. It is still popular till today. Warren E Buffett once said to the media, 'A quarter of my whole body is Coca-Cola.' Drinking five cans of cola a day makes him feel very happy. The brand kernel of Coca-Cola is happiness'. All the commercial advertisement of it, either about exercise, reunion, or sharing, revolves around happiness [1]. For example, in 2020, Coca-Cola launched the "Everything's better when we're open" series of themed activities to cheer for people in the epidemic. In early 2021, Coca-Cola, together with 72andsunny Studio from the Netherlands, launched a limited customisable packaging of the "Open to Better" theme series in Europe, bringing everyone full of positive energy again [2]. Through franchising, Coca-Cola entered China in the 1920s and quickly became one of the most popular soft drinks in the country. The 20th century was at the same time an era of turbulent nationalism. Frequent outbreaks of "domestic goods movement" and "boycott foreign goods movement" have always been one of the important themes in modern Chinese history [3]. Under this premise, Coca-Cola can successfully enter the Chinese market and make an overwhelming victory, which is enough to witness the company's success and glory. However, Nowadays, obesity has become a common problem for people. Overweight teenagers can be seen everywhere on the street. Also, anti sugar has become a new way to keep fit and healthy. People are willing to drink natural and healthy drinks, as a result beverage companies need to continuously launch the green drinks such as tea beverage. Yet Coca-Cola is incompatible with this concept as a Carbonated drink. These things challenge Coca-Cola. Whether Coca-Cola can keep the glory of the past? On the other hand, new beverage varieties emerge one after another. Facing powerful competitors such as Pepsi and Nestle, which do not only produce soft drinks, but also snack food, does Coca-Cola has the ability to fight against them for a long time? At the same time, Covid-19 brings economic depression, which results huge loss in various industries. Even such company which can perfectly resist recession like Coca-Cola also received its influence in 2020. Where will its future go? These questions worth thinking. Even though there is much difficulty, we don't have to be so pessimistic. By 2022, Coca-Cola has been dividend for 60 consecutive years, and it has been called 'recession proof' because of its characteristic by dividends. Some experts pointed out that Coca-Cola's annual cash flow is the key to the company's success. In 2021, Coca-Cola's revenue is only lower than in 2016, and its revenue

growth rate and net profit have both hit a new high in the past six years, sweeping away the haze of poor performance under the epidemic in 2020. This research is based on SWOT analysis method, and will comprehensively summarize four aspects of Coca-Cola, which are strengths, weakness, opportunities and threats. In addition, it will evaluate the possible future performance of Coca-Cola and give strategic suggestions.

2. Description of Coca-Cola's composition and its development

The Coca-Cola Company was founded on May 8, 1886 and was registered in Delaware in September 1919. The company is the world's largest non-alcoholic beverage company. The company may own and sell more than 500 non-alcoholic beverage brands, dividing them into the following categories: sparkling soft drinks; water, enhanced water and sports drinks; fruit juice, dairy products and vegetable drinks; tea and coffee; and energy drinks. The company owns and sells four of the world's top five non-alcoholic bubble soft drink brands: Coca-Cola, Diet Coke, Fanta and Sprite. Finished beverages with company trademarks have been sold in the United States since 1886 and are now sold in more than 200 countries and regions.

On April 29, 2020, Pepsi, Coca-Cola's rival, launched Osmanthus-taste Coke, which was the first time it launched "Chinese taste" Coke for the Chinese market. Almost at the same time Coca-Cola had just launched a special COSTA ready-to-drink coffee for China.

Table 1. Coca-Cola now owns and market numerous valuable beverage brands

<ul style="list-style-type: none"> •sparkling soft drinks: Coca-Cola, Diet Coke/Coca-Cola Light, Coca-Cola Zero Sugar, Fanta, Fresca, Schweppes, 1 Sprite and Thums Up; (1Schweppes is owned by the Company in certain countries other than the United States.) 	<ul style="list-style-type: none"> •hydration, sports, coffee and tea: Aquarius, Ayataka, BODYARMOR, Ciel, Costa, doğadan, Dasani, FUZE TEA, Georgia, glacéau smartwater, glacéau vitaminwater, Gold Peak, Ice Dew, I LOHAS, Powerade and Topo Chico; 	<ul style="list-style-type: none"> •nutrition, juice, dairy and plant-based beverages: AdeS, Del Valle, fairlife, innocent, Minute Maid, Minute Maid Pulpy and Simply.[11]
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Description of Coca-Cola's financial situation in recent years

Judging from the situation in the past 6 years, Coca-Cola is going through a torment. Since 2017, its revenue has fallen for two consecutive years. Respectively \$36.212 billion in 2017 and \$34.3 billion in 2018, compared to \$41.863 billion in 2016. The reason is that the company dives off non-strategic core business. It has just resumed growth in 2019, its revenue reached about \$37.266billion and it started to decline again in 2020 due to the epidemic and other reasons, which was \$33.014 billion. However, in 2021, Coca-Cola's revenue is only lower than it in 2016, which is \$38.655 billion, as shown in the Table 1.

Its net profit fell dramatically to \$1.248 billion in 2017, compared with \$6.527 billion in 2016. Because of the one-time business divestiture costs and the one-time tax repayment caused by the adjustment of tax policies, the growth rate of net profit reached 415.5% in 2018, although the company's revenue is still significantly reduced and the improvement of profitability has been fully demonstrated. In 2019, the growth rate of net profit reached 38.64%, and the net profit also reached 89.20, the highest net profit in three years. However, in 2020, due to the impact of the COVID-19 pandemic and the influence of other factors, the net profit fell to \$7.747 billion, a year-on-year decrease of 13.15%. Fortunately, net profit in 2020 peaked in five years, \$9.971 billion, an increase of 26.13% year-on-year, as shown in the Table 2.

Regardless of whether Coca-Cola's business has undergone major adjustments, its gross profit margin is quite stable. This "sugar water" business is quite profitable, and the gross profit margin is stable at around 60%, 60.77% in 2019, 59.31% in 2020, 60.27% in 2021, which is almost a straight line. The net profit of sales fluctuates greatly with the change of its net profit, but it has been stable at more than 23% in the past three years, which is already higher than the gross profit margin of many companies. On the whole, apart from the same income per share with the industry average and lower earnings per share, Coca-Cola is far ahead of the industry average such as return on net assets, net profit, operating income, etc., etc. Therefore, from the financial perspective alone, we can roughly judge that Coca-Cola is a very excellent company.

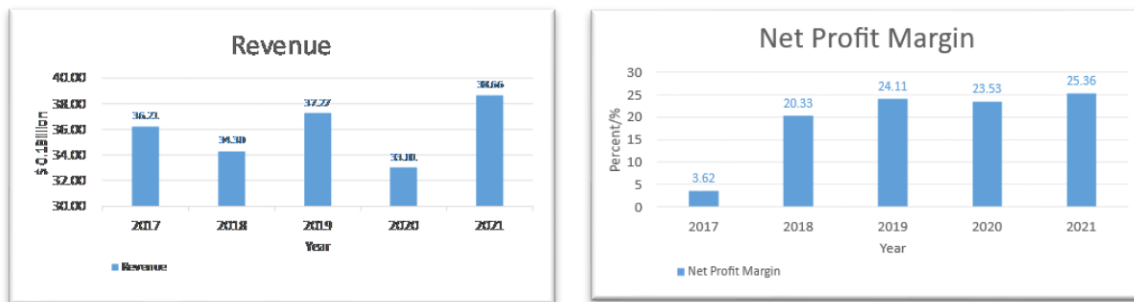


Figure 1. Revenue & Net Profit

2.1 Description of the dilemma Coca-Cola is facing with

In the Internet era, the needs of consumers show the following characteristics: first, diversification; second is personalization. In the Internet era, Coca-Cola's traditional marketing management concepts and models have been unable to meet the needs of consumers, which in turn affects the future development of the company [3-1].

The influence of Coca-Cola's brand in young people has not surpassed Pepsi, and brand influence has been significantly weakened by carbonated beverages among emerging consumer groups. Also, the company's industrial chain is too large, so the market response efficiency is reduced. When a customer is unsatisfied with the service Coca-Cola provides or simply doesn't like the product, it can be hard to feed back. Without suggestions, the company can not make any practical and meaningful improvements.

What's more, carbonated beverages are highly substitutable and do not conform to the health concept of the new era. Which means that there are more and more kinds of beverage, making that beverage like coke and sprite are not that special as before. People are also considering these beverages unhealthy and prefer tea drinks and fresh fruit juice. Nowadays, consumers' demand and desire for drinks not only meet the demand for quenching thirst and functional needs. Consumer needs and desires are becoming more and more complex, adding many requirements such as appearance, function, health, quenching thirst, environmental protection, etc. to the product itself, and whether the brand culture and emotions can resonate. More nutritious, more diverse, more personalized, more convenient, smarter and more cooperative will become the main theme of innovation and development in the beverage industry [4]. However, Coca-Cola is regarded as a representative of carbonated drinks. This means that no matter Coca-Cola launches a sugar-free version of Coke or a low-sugar version of Coke, it is considered unhealthy. This also shows that the Coca-Cola is regarded as an unhealthy brand to some extent, which is very unfavorable to its development. Unlike Pestle and Nestle, Coca-Cola only produces and sales drinks, making its comprehensive strength is not as strong as them.

3. SWOT analysis

3.1 Strength

Coca-Cola has strong capital strength, strong free cash flow, and also high gross profit margin. Its brand has a long history and also public influence, there are many kinds of soft drinks belong to the company. There are rich sales channels, products are easy to buy, and retail prices as well as the quantity purchased are not vulnerable to the epidemic or other factors, so sales are stable. The Coca-Cola Company attaches great importance to the design and use of advertising slogans. Since the end of the 19th century, the company has changed its advertising slogan closely with the trend of the times in its publicity. These slogans are loved by consumers, and the marketing strategies they use have also given Coca-Cola a dominant position in the world beverage market [5]. What’s more, Coca-Cola has a mysterious recipe. Coca-Cola's stock has remained extraordinary performance for a long time, and it is one of the least diversified companies in the world. Coca-Cola's truth is that when your product generates more marginal profits than other industries, it's better to focus on that well-functioning industry [6].

3.2 Opportunity

During the epidemic, many milk tea shops were unable to open, but Coca-Cola can be sold only by machine. Which can help it save in management costs and hiring costs. At the same time, people go out less often, so fast food and takeaway are developing rapidly, Coca-Cola is often bundled with them, thus sales are increasing.

3.3 Weakness

Unfortunately, carbonated beverages are highly substitutable and do not conform to the health concept of the new era. At the same time, the influence of brand among young people, especially the post-00s and post-05s, declines. The company’s industrial chain is too large, so the market response efficiency is reduced, communication with consumers needs to be strengthened, and marketing methods need to be changed. What’s more, the plastic bottles of Coca-Cola are not environmentally friendly. Coca-Cola announced its commitment to achieve 25% of the world's packaging repeatability by 2030, the figure is 16% in 2020. The move was welcomed by environmental groups, who have long accused the soft drink giant of exacerbating global plastic pollution [7].

3.4 Threat

There are more and more types of soft drinks, thus old-fashioned beverages such as Coke and Sprite are facing competition from new varieties and also competition with non-similar products, such as milk tea, tea drinks, freshly squeezed juice, etc. Competition with strong competitors like Pepsi and Nestle in market share is also very fierce.

Table 2. The Swot Graph

Strength 1. Strong capital strength 2. Long history in brand and public influence 3. Rich sales channels 4. Advertising slogans are loved by consumers 5. Mysterious recipe	Opportunity 1. Sold by machine 2. Fast food and takeaway develop rapidly
Threat 1. More and more types of soft drinks, also non-similar products 2. Competitions between companies	Weakness 1. Carbonated beverages are highly substitutable 2. The influence of brand 3. Industrial chain is too large 4. Only soft drinks for sale

By combining these four parts, we can try to do some analysis and make strategic recommendations.

3.5 Opportunity-Strength strategies

Take advantage of capital to conduct online and offline marketing, actively communicate with consumers and absorb opinions, and optimize products and industrial chains. Use the brand's influence to promote and introduce rich tastes and varieties of beverage for the Chinese market. At the same time, set up independent vending machines near the milk tea shop to take advantage of the fact that some consumers do not want to spend time waiting for milk tea to be made or queue up to order.

3.6 Opportunity-Weakness strategies

Design healthy beverages suitable for young people, such as tea drinks or fruit drink. Co-brand with the themes that the post-00s and other groups interested in to expand its influence among young people. To enter the food market, it can try to acquire some food companies with certain brands and stable funds.

3.7 Threat-Strength strategies

Design a drink similar to the best-selling drink in the market, use the brand effect and the company's influence to promote it, and seize the market share. Use financial strength to continuously innovate, develop new products, and open up new markets, so as to compete with PepsiCo and other companies for market share.

After applying the SWOT analysis method to summarize the four aspects of Coca-Cola, the table above can be utilized in giving Coca-Cola some more comprehensive strategic suggestions to deal with the dilemma and also some possible performance of Coca-Cola.

4. Strategic suggestions

Upgrading on the existing basis

Coca-Cola should utilize its financial strength and also strong cash flow to conduct both online and offline market, to take advice and feedback directly from customer. Then make changes and improvement according to them. Bound Coca-Cola with takeaway. Sell Coca-Cola to food vendors instead of consumers, who will add Coca-Cola to their food packages. Meituan Dianping and Coca-Cola have had successful cooperation experience in the marketing of food catering scenarios. Through big data and online digital capabilities, Meituan Dianping has linked tens of thousands of restaurants to carry out "in-store + home" catering scenario marketing, and continue to deliver to users the "smooth and delicious, and delicious food accompaniment" advocated by Coca-Cola's concept [8].

Dealing with the emergence of new varieties of soft drinks

At the same time, take the advantage of the brand influence. Observe what best-selling drinks on the market are not available for Coca-Cola itself, design a drink with almost the same taste and publicize it. Emphasize the safety of this drink and the high quality of raw materials. With brand advantage bonus, Coca-Cola can rapidly occupy market share and easily squeeze the original brand out of the market (only if that brand is not evenly matched).

Dealing with the competitors that are evenly matched

Use financial strength to continuously innovate, develop new products, and open up new markets. Co-brand with the themes that the post-00s and other groups like to expand its influence among young people, maybe video games or television films, change the pack of beverages into customer's favorite way, associated with co-branding. Letting the co-branding partners to help publicize the products is important. After all, customers pay more attention to changes in their favourite games or TV series than changes in Coca-Cola.

Conform to the previous era

As I mentioned above, Coca-Cola is regarded as an unhealthy brand to some extent, so changing the brand's image is emergent. Apart from designing new products that are healthier and with less sugar, or updating existing products, changing the image of the brand is much more important. Find new marketing concepts, change the core of the brand from "happiness" to healthy and emphasize it for many times in order to build a long-lasting brand. This can only be achieved by incremental stages, the name of Wanglaoji changing into Jiaduobao is a good example. On the advertisement on TV or any other form, should firstly carry the theme of health, which means 'Happiness' and 'Health' appear at the same time. This can make the transformation of Coca-Cola less abrupt. After a period of time, when people accept the new theme, then its time to delete 'Happiness'.

5. Conclusion

Through analysis, Coca-Cola is still an excellent company with great potential. It has a moat, as Buffett puts it, so it can have a place in the soft drink world at least for a long time. It can compete with big companies such as Pepsi and Nestle without being overthrown by new companies. As for the predicament that Coca-Cola is facing now, it is actually the predicament that the entire soft drink industry is facing. It can even be said that it is a dilemma faced by many unhealthy food markets. So Coca-Cola needs to do something to change the current predicament, even if it is already doing so. It launched sugar-free drinks and acquired stakes in plant-based beverage companies and coffee companies in an attempt to turn the situation around, but it didn't have the desired effect. What Coca-Cola needs to do is to change its image in the minds of consumers, not just update its product and its composition. The core idea of Coca-Cola in the past has always been happiness, it wanted to deliver happiness to all people in the world, through sugar, and therefore bring obesity to people who love it. Sugar and unhealthy have long been on the label of Coca-Cola, so Coca-Cola company's products will give people that sense too. Fortunately, Coca-Cola's advertisement is excellent. Which means that Coca-Cola has the ability to change its core idea though advertising.

Coca-Cola has to link the image of the company to health and tell consumers new ideas. It may take some time for customers to fully accept the new Coca-Cola, but it is completely acceptable and worth waiting. Appropriate transformation methods have been explained above, so it won't be repeated here. After its transformation, it's reasonable to believe that Coca-Cola's product can be sold to a wider audience. Recently, Coca-Cola "tossed" the LOGO and extended the "magic claw" to the packaging again! Based on the 2021 packaging, Coca-Cola also visually unified other flavors, including vanilla, cherry and cherry vanilla combination flavors. With this packaging upgrade, Coca-Cola boldly removed the iconic "Cola Red", which was refreshing [9]. That's a good start! Thus, although carbonated beverages represented by Coca-Cola face many difficulties, the adjustment of product structure and the increase of product diversity, especially healthy beverages, are favored by the market, which also brings development opportunities for beverage companies. The Coca-Cola Company should seize this opportunity to transform, break away from the general soft drink company, and turn its disadvantages into advantages. And its difficulties will be sold step by step. After all, Coca-Cola's predecessor was medicinal liquor, which was used to refresh the mind and treat headaches. It can go from being once linked to health to being synonymous with sugar and unhealth, and now it can also be linked to health. James Quincey, Chairman of the Board of Directors and Chief Executive Officer of the Company, said, "We are confident of achieving this year's full-year performance guidelines and are well prepared to win in different environments. [10] People should feel Confident about Coca-Cola.

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