

# Analysis of Financial Strategy and Operation Strategy of Coca-Cola Company Enterprise

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**Abstract.** Coca-Cola was originally created in 1886 in Atlanta, Georgia, also it has been a part of social development and innovation ever since. Today, Coca-Cola has a unique taste that gives people a great experience every day. Statistics show that Coca-Cola ranks in the top three of the world's 100 most valuable brands, with 1.7 billion people drinking Coca-Cola every day and 19,400 bottles sold every second. Provides consumers with more than 50 beverage choices from more than 15 brands and consumes 150 million Coca-Cola cups a day. All these show that Coca-Cola is undoubtedly a successful enterprise. In addition to its rich historical background, the company has also demonstrated its extraordinary business policies and financial management in the development process. In this research, this paper will focus on introducing its enterprise value, long-term borrowing and capital lease debt, owners' equity, SWOT analysis, and market preference to optimize asset structure. In this paper will have a clearer understanding of why Coca-Cola has become a leader in the soft drink market and is regarded as a specimen and model in the industry.

**Keywords:** Financial Strategy; Operation Strategy; Coca-Cola.

## 1. Introduction

Over the past 135 years, Coca-Cola products have been sold in more than 200 countries and regions, with about 200 master brands, 225 bottling partners, and 900 factories. Statistics show that Coca-Cola ranks in the top three of the world's 100 most valuable brands, with 1.7 billion people drinking Coca-Cola every day and 19,400 bottles sold every second [1]. In 2020 alone, the net business reached \$33 billion and the market value increased to \$235.9 billion, of which the volume of products sold in Asia Pacific accounted for 23%, Europe, the Middle East and Africa accounted for 28%, Latin America accounted for 28%, North America accounted for 18% [2]. And the Coca-Cola Company has never stopped participating in social development innovation and sustainability initiatives, including water leadership, added sugar reduction, Clean World, climate, sustainable agriculture, people and communities. The company is all involved. In the Asia-Pacific region, Coca-Cola offers Chinese consumers more than 50 beverage choices from more than 15 brands, and 150 million cups of Coca-Cola products are drunk in China every day. Coca-Cola has 43 factories and 45,000 system employees in China since it returned to the Chinese market in 1979. For the whole year of 2022, the company's revenue was 43.04 billion dollars, an increase of 11%, exceeding the market expectation of 42.8 billion dollars. Only the operating profit was 10.909 billion dollars, an increase of 6% compared to last year. Earnings per share were \$2.48, up 7% from last year, and global unit case sales were up 5% from last year [3]. Studies have shown that the company is the world's largest and most valuable brand of soda, as well as a purveyor of coffee, juice and fruit drinks, both historically and today. With more than 500 brands in the global market and more than 3,000 different flavor products, it can largely meet the diversified needs of consumers for drinks. With the increasing demand for health, Coca-Cola must continue to develop more refreshing, refreshing and healthy new drinks if it wants to continue to grow and occupy market share in the future. In addition to paying attention to taste, it is also very important to make drinks healthy, idealized and spiritualized. In this paper, the enterprise value of the company and Coca-Cola's long-term loans, including equity owners, SWOT analysis, market value and other aspects will be analyzed first, and the reasons why Coca-Cola, as a century-old brand, has many loyal users and leads the world's beverage brands will be studied.

## 2. The enterprise value of the Coca-Cola Company

The global beverage giant Coca-Cola has 160 brands in 200 countries. It is best known for soft drinks such as Coca-Cola, Diet Coke, Fanta and Sprite. Its growth path is reflected in its brand value.

The value of Coca-Cola's brand rose to \$80.83 billion in 2019, according to the Research [4]. From \$41.41 billion in 2006 to \$83.84 billion in 2015, the brand value of Coca-Cola Company experienced a sharp rise, and then fell slightly to \$78.14 billion in 2017, and rose again to more than \$80 billion in 2019, reaching \$80.83 billion.

Below is a chart comparing the number of stores between Coca-Cola, we can clearly see in fig 1 that the brand value of Coca-Cola company from 2006 to 2019.

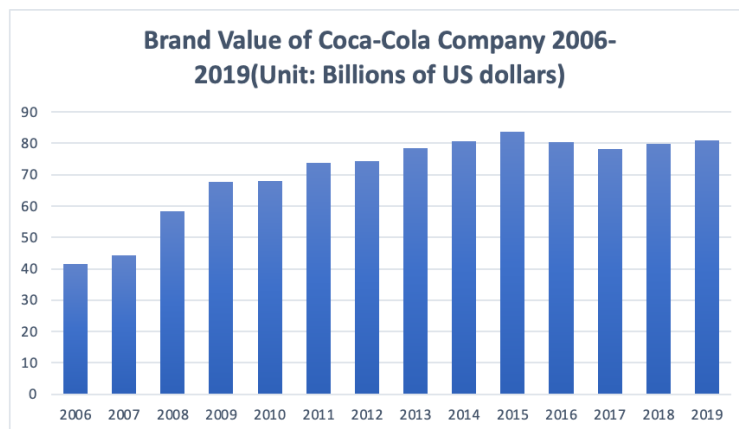


Fig. 1 Number of brand value of coca-cola company (Photo credit: Original)

## 3. Coca-Cola's long-term borrowing and capitalized lease debt for the past quarter was \$35,462 as of September 2022.

Long-term borrowings and capitalized lease debt/total assets % represent the percentage of the company's assets financed through loans and financial debt over one year [5]. The ratio measures a company's financial health, including its ability to meet the requirements to repay outstanding loans. It is calculated by dividing long-term borrowings and capitalized lease debt by the company's total assets. As of September 2022, Coca-Cola's long-term borrowing and capitalized lease debt for the past quarter was \$35,462, and its assets totaled \$92,471 for the past quarter, so Coca-Cola's long-term borrowing and capitalized lease debt/total assets % for the past quarter was 0.38.

Below is a chart of the number of long-term borrowing and capitalized lease debt of Coca-Cola, we can clearly see in fig 2 from jan-12 to jan-21.

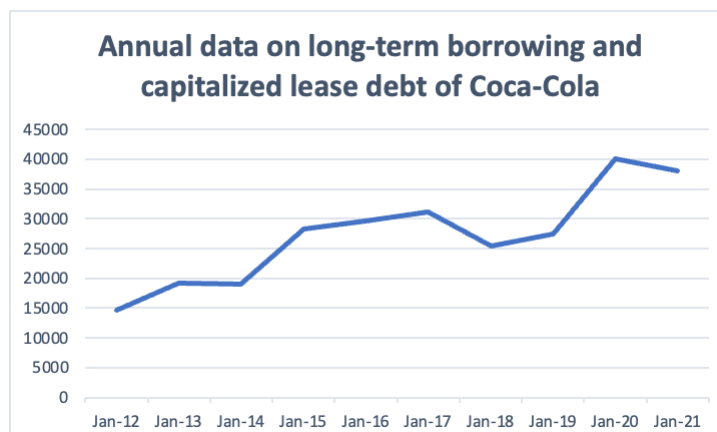


Fig. 2 Number of long-term borrowing and capitalized lease debt of coca-cola company (Photo credit: Original)

#### 4. Total owners' equity of Coca-Cola: \$24,436

Except for numbers per share, ratios, and percentages, all data units are in millions. The currency unit of the data is the currency unit of the local stock transaction.

The relevant contents and calculation method of Total Equity of Coca-Cola are as follows:

Total owners' equity refers to the residual equity enjoyed by owners after deducting total liabilities from total assets of an enterprise. Owners' equity in a company is also called shareholders' equity. Owner's equity is the owner's residual claim on enterprise assets. It is the part of enterprise assets that should be enjoyed by the owner after deducting creditor's equity. It not only reflects the preservation and appreciation of the owner's invested capital, but also reflects the concept of protecting creditor's equity [6].

As of September 2022, Coca-Cola's total owners' equity for the past quarter was \$24,436.

Below is a chart of the number of total owner's equity of Coca-Cola company, we can clearly see in fig 3 the annual data on the total owner's equity of Coca-Cola from Dec-12 to Dec-21.

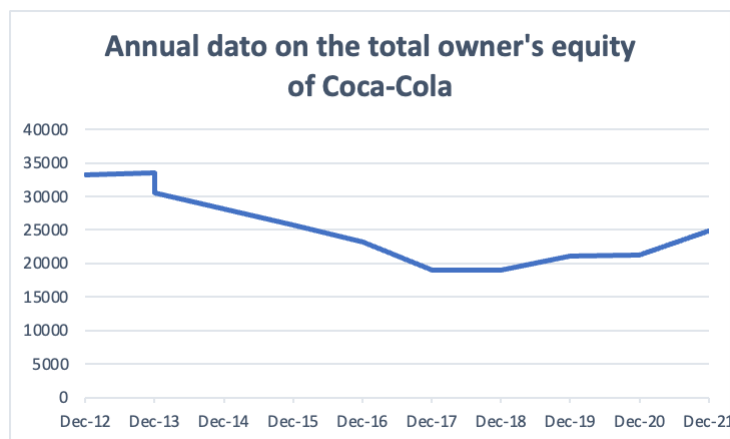


Fig. 3 Number of annual data on the total owner's equity of coca-cola company (Photo credit: Original)

#### 5. SWOT analysis of Coca-Cola Company

##### 5.1 Strengths of Coca-Cola -- Internal strategic factors

First of all, Coca-Cola itself constantly innovates and develops its products. As a company mainly selling soft drinks, Coca-Cola not only focuses on the present. After more than a century of development, the company not only sells Coca-Cola, but also various products including juice, dairy products, bottled water, coffee, functional drinks, etc. It can be said that Coca-Cola has more than 3,000 kinds of products [7]. This is the company's emphasis on category expansion recommendation, adhere to the multi-category, adhere to the multi-brand. Developed sports, tea, coffee, water and other aspects suitable for use by groups of all ages, which also brings new business growth points for the company.

In addition, Coca-Cola attaches great importance to brand marketing. Over the years, the classic brand logo, the classic red and white logo, and the young corporate culture have reached a consensus among consumers of all ages. The reason why Coca-Cola has such a distinctive brand image is also due to its own history. It has become an indispensable member of the US army, including all the US presidents who are loyal fans of Coca Cola. It can be said that it represents the national culture in a sense. Another reason is that the Coca-Cola Company is very good at creating the mystery of the product. For many years, the formula of Coca-Cola was kept secret. Even if 99 percent of the formula was made public, the remaining one percent would not be able to make a Coke. It is because of this sense of mystery that consumers are fascinated and curious about it.

Secondly, after the invention of Coca-Cola, it was endowed with the functions of relieving pain and treating depression, and even added cocaine ingredient. In the same year 1886, Pepsi was born, bringing strong competitors to Coca-Cola, but this did not affect the consumers of Coca-Cola to give up the product. When Coca-Cola tried the new formula, they all refused, hoping to restore the traditional formula. This is the proof that Coca-Cola has strong customer loyalty. It is this group of loyal followers that make Coca-Cola stand out in the competition between Coca-Cola and Pepsi, and keep other competitors away with an overwhelming market share.

Finally, in terms of its marketing strategy, it has also set a model for global enterprises. Whether it is charming products or low price sales, it has made a wide range of consumers. Besides this, the company attaches importance to the expansion of the global market and can achieve rapid sales growth in emerging markets when consumption in some traditional markets is saturated.

### **5.2 Weakness of Coca-Cola -- Internal strategic factors**

After 100 years of development, Coca-Cola has a huge structure, which makes it difficult for the company to control departments. As a multinational enterprise, including business, organization and employees, is extremely complex, which brings certain difficulties to the effective management of Coca-Cola. Besides, the improvement of people's living standards has gradually increased the requirements for health. Coke's key consumer group, young people, are slightly less likely to identify with the product than Pepsi is. The wide availability of barreled beverage channels makes it difficult to control the quality of the product consumers end up with, which leads to high shipping costs for the ingredients. To ensure the confidentiality of its ingredients, Coca-Cola concentrates its drinks and ships them around the world. It should not be ignored that water is particularly important to Coca-Cola, as water is the main component of all the company's products and an indispensable part of the production process. However, in many parts of the world, such as the Middle East, water is expensive and resources are limited, which will lead to the increase of the cost of Coca-Cola, and may also face the limitation of market expansion. And have a negative effect on their profit growth.

### **5.3 Opportunities for Coca Cola - External strategic factors**

In terms of marketing strategy, Coca-Cola insists on low price sales, which means that no matter where in the world, the company's products can be affordable to everyone. The strategy of small profits and high sales not only brings huge profits to the company, but also brings unlimited opportunities to develop more markets. Even in the face of economic difficulties, such as the Great Depression, Coca-Cola's products can be sold at low prices. It also increases the chances of survival for businesses. In terms of product promotion, Coca-Cola introduces new products and diversifies its departments. With the development of times, people have higher and higher requirements for health. Coca-Cola launches new products in the field of health and food to increase revenue and diversify its business. Currently, the company owns 16 percent of Green Mountain Coffee. So far, Coca-Cola has completed its purchase of a 17% stake in Monster Beverage [8]. The deal adds a popular energy drink merchandising route for Coca-Cola. In the current development perspective, Coca-Cola is likely to focus on the development of various products, including coffee, tea, and health drinks, and establish more partnerships with the company. At the same time, Coca-Cola's business is highly dependent on logistics and supply chain. In the long run, transportation costs and fuel prices have been on the rise. Therefore, if the distribution system can be improved and the new distribution scheme can be introduced, it will also bring the company a great opportunity. From perspective of financial strategy, Coca-Cola controls its relations with global bottling plants not by equity capital, but by franchise agreement, which is based on the rapid integration of resources, so as to take advantage of the asset-light leverage market and split the bottling plants from the company. It is also Coca-Cola Company that forms the bottling business into a separate Coca-Cola Light Company based on the asset-light positioning. In this way, the company will be asset-heavy and independently listed, transforming into an asset-light company preferred by stock investors. The more asset-light the company is but the better its future growth prospects, the higher its stock price will be.

#### 5.4 The Threat of Coca-Cola - External strategic factors

The long-term competition with Pepsi has brought a lot of uncertainties to the company. If the company cannot continue to develop new advertising and marketing means or new products, the existence of competitors will soon bring great pressure to Coca-Cola. In addition to the direct competition with Pepsi, there are also many indirect invisible competition, including Starbucks coffee beverage industry, Lipton juice industry, All of them have brought more healthy choices to the beverage industry, which are undoubtedly threatening the market position of Coca-Cola. Their cheaper choices make consumers less frequent or loyal to Coca-Cola, including Coca-Cola itself. People's stereotype of high-sugar drinks is also a big challenge. Promoting healthier options is something Coca-Cola has to think about.

### 6. Coca-Cola: Optimized asset structure by market preference

Why is Coca-Cola such a valuable company when it's unhealthy? Even compared to its main competitor Pepsi, Coca-Cola is not only number one in the market, its stock trades at 32 times earnings compared to Pepsi's 24 times, which indicates that the market prefers Coke, and clearly the financial strategy has a significant impact on Coke's long-term growth. Banks like to require tangible assets as collateral, otherwise it is difficult to lend to companies, while the stock market does not care about whether companies have fixed assets, but more about future income streams. In this way, companies should take advantage of the different preferences of the financial market, optimize the asset structure, and raise the most funds at the lowest cost, so as to develop their own strength. In international events such as World War II aid operations and the Olympic Games, Coca-Cola has linked corporate actions to countries. But despite Coke's unassailable leadership, Pepsi is challenging it. Pepsi took advantage of its price advantage and launched a marketing campaign.

The success of Pepsi's strategy stole consumers away from Coke during the Great Depression. From 1936 to 1938 alone, Pepsi's profits doubled, becoming the second largest beverage after Coca-Cola. In contrast, Coca-Cola, which has been in the leading position for a long time, has to carry out conservative strategies in operation, but the decision response is not fast enough, and it keeps losing market share. In the early 1980s, Coca-Cola's market share fell from 60 percent after World War II to 24 percent in 1983. In 1986, Coca-Cola began buying bottling plants. Unfortunately, these acquisitions had a downside. The corporate debt ratio has risen sharply, lowering credit ratings and raising the cost of debt, and also the newly acquired bottling plant is an asset-heavy production enterprise, bringing much lower profit margins than the original company, so seriously affecting the company's profit growth prospects [9].

At the same time, these mergers blurred the firm's position in the market and reduced its value. In the face of such a dilemma, Coca-Cola changed its production idea and announced to follow the idea of "separating asset-heavy from asset-light", positioning the original Coca-Cola Company as "asset-light", packaging the bottling business as an independent Coca-Cola bottling company, positioning the new company as "asset-heavy", and listing the new company separately on the New York Stock Exchange. After the spin off, Coca-Cola Bottling Company not only owns the plant and equipment of each plant, but also owns a lot of assets.

In this sense, the original Coca-Cola Company owned the intellectual property of the cola formula, had few tangible assets, but had a good future income stream, and was very much in favor of the stock market. In addition, Coca-Cola Company also sold 51% of the shares of the original subsidiary during the spin-off and listing process, so the liabilities of the new Coca-Cola bottling company do not need to be combined into the balance sheet of the original company, and will not affect the debt ratio of the parent company. Such a strategy has achieved remarkable results in terms of debt ratio. Coca-Cola's long-term debt ratio decreased from 42.2% in 1986 to 24.9% after the break-up in 1987. In the following years, by further divesting other bottling plants into Coca-Cola Bottling Company, the long-term debt ratio decreased to 11% in 1997. From the perspective of profit, the net profit rate of Coca-Cola rose from 12.3% in 1985 to 21.9% in 1997, the return on assets rose from 11.4% to 25%,

and the return on net assets rose from 25.1% to 61.5%. Earnings per share also rose to \$1.42 from \$0.22 [10]. A comparison between Coke and Pepsi gives a clearer picture of how the split changed the company. At the time of the split, Coke's return on equity was 6.2 percent higher than Pepsi's. By 1997, the gap had grown to 29.9 percent. This was the turning point for Coca-Cola, which put Pepsi behind it.

## 7. Conclusion

Throughout the 100-year history of Coca Cola, from the beginning, the Great Depression, World War II, competition, expansion, crisis and adjustment, Coca Cola has been one of the leaders in the global soft drink market until now. No matter from product management, maintaining classic products, promoting category expansion, brand strategy, shaping mysterious image, representing national culture, bearing investment value, marketing strategy, advertising marketing, etc. Seizing business opportunities and positioning global markets, including financial strategies, have been uniformly successful, resulting in good returns on assets, profit margins and growth prospects, which are also welcomed by stock market investors. This also brings inspiration to enterprises in the new era. Strengthening product innovation, deepening brand culture and optimizing value management are important reasons for enterprises to step by step.

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