

# Evaluation of the Acquisition of BodyArmor Impacts on the Growth of Coca-Cola

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**Abstract.** As people become increasingly concerned with their health, the market for sports beverages is rapidly expanding. Beverages are evolved into more practical vitamin and food supplement items. This essay intends to explore whether the acquisition may increase Coca-Cola's profitability by entering the sports drink industry. Due to the magnitude of this deal on a worldwide scale, this article mostly used secondary research as research approach. BodyArmor and Coca-Cola's finances are first being analyzed to access the deal's premium. Meanwhile, the united conglomerate's future development potential is analyzed using the 4Ps: price, product, location, and promotion. Overall, a cost-benefit analysis is performed to see whether this acquisition transaction will actually allow Coca-Cola to develop over time by entering the sport drink industry. The study suggests that the acquisition provides a lot of diversification benefits in terms of the synergy formed.

**Keywords:** Acquisition; Coca-Cola; Sports drink industry; BodyArmor.

## 1. Introduction

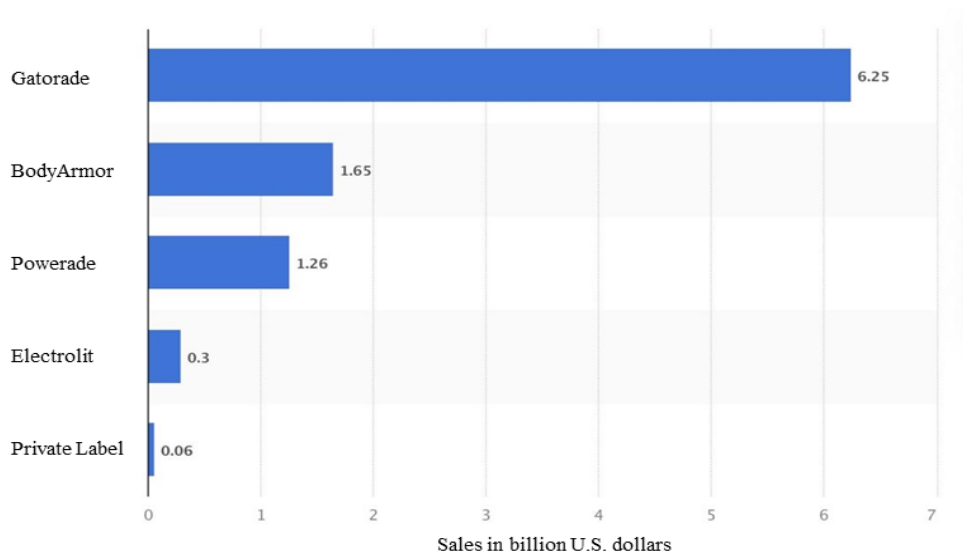
BodyArmor is a premium sports drink that provides excellent hydration. BodyArmor, created in 2011 by Mike Repole, is high in electrolytes, coconut water, and antioxidants [1]. BodyArmor is low in sodium and high in potassium, with natural tastes and sweeteners and no artificial colors or dyes. The Coca-Cola Company is the largest producer of the carbonated beverage Coke in the world, supplying consumers in more than 200 countries with 1.9 billion bottles or cans of Coke every single day [2]. Nonetheless, with the rapid increase in sugar-related diseases such as obesity and diabetes, people are becoming more conscious of their daily sugar intake. Due to the high sugar content of carbonated beverages, health authorities have imposed further regulatory limits on their promotion and some local governments have imposed sweetened beverage tax to reduce the consumption of sweetened beverages. Coca-Cola has responded by pushing diet coke with minimal or no sugar, but it is prudent to provide an alternate, healthier option to offset dropping soda sales. With \$12.6 billion in cash on hand in 2021, Coca-Cola is in an ideal position to fill a gap in its product line - sports drink [3].

Coca-Cola first acquired a 15% stake in BodyArmor in 2018 for \$300 million at a valuation of \$2 billion. Coca-Cola's bottling network then took over BodyArmor distribution, allowing BodyArmor to accelerate its expansion to meet rising customer demand for premium sports and hydration beverages. In exchange for distribution and participation in extending the BodyArmor brand, Coca-Cola received an additional 15% equity investment. Coca-Cola later paid \$5.6 billion in cash for the company's remaining 85% stake which is valued at about \$8 billion [4]. BodyArmor will continue to be sold via the Coca-Cola bottling chain in the United States. Since purchasing Costa Coffee for \$5.1 billion in 2018, it is Coke's largest acquisition so far [5].

## 2. Case Description

The combination of BodyArmor's strengths and Coca-Cola's marketing knowledge and worldwide reach provides several prospects for value generation. BodyArmor provides a comprehensive range of sports drink goods, ranging from alkaline water with electrolytes, low calories hydration drinks to caffeine drinks. BodyArmor's mature product line would spare Coca-Cola the decades required to establish its own brand from the ground up. In measurable retail channels, BodyArmor is now the category's number 2 sports drink, growing at a pace of almost 50% to generate more than \$1.4 billion

in sales [6]. By purchasing BodyArmor, Coca-Cola is aiming to compete with Pepsi's Gatorade brand, which take 67.7% share of US sports drinks market by generating 6.25B U.S. dollars' worth of sales showed in Figure 1 [7].



**Fig 1.** 2022 sales of the main non-aseptic sport drink brands in the United States.

This essay intends to explore whether the acquisition may increase Coca-Cola’s profitability by entering the sports drink industry. Due to the magnitude of this deal on a worldwide scale, this article would mostly use secondary research as research approach. The author will start by analyzing BodyArmor and Coca-Cola's finances and assessing the deal's premium. Then, the united conglomerate's future development potential will be analyzed using the 4Ps: price, product, location, and promotion. Overall, a cost-benefit analysis will be performed to see whether this acquisition transaction will actually allow Coca-Cola to develop over time by entering the sport drink industry.

### 3. Financial analysis

The acquisition has been financially beneficial to both Coca-Cola and BodyArmor. Due to the completion of its \$5.6 billion acquisition of BodyArmor, Coca-Cola reported a 10% rise in fourth-quarter revenue to \$9.5 billion in 2021 according to figure 3. And the revenue is keep increasing in the following year, revenue for the first quarter in 2022 came in at \$10.5 billion, above experts' expectations of \$9.83 billion. Hydration products gained 8%, while the company's sports drinks segment, which includes BodyArmor and Powerade, grew 22% during the period. During the previous three years, BodyArmor has profited substantially from the distribution of Coke's US bottling infrastructure; when Coke first became engaged in 2018, BodyArmor was only earning \$250 million in sales; however, following the purchase, sales revenue reached \$1.4 billion, representing a 77% CAGR.[8]. The revenue of Coca-Cola in the 2013-2022 fiscal year is shown in Figure 2 [9].



**Fig 2.** Coca-cola revenue fiscal quarters from 2013-2022.

## 4. 4Ps Theory

### 4.1 Price: Sports drinks Market Analysis

In the United States alone, sports drinks sold over 1.2 billion 192-oz. cases in 2021, accounting for 35.7 percent of the non-carbonated soft drink business [11].

In 2021, Americans used around 3.3 liters of sports drinks per capita. By 2027, this rate is expected to rise to 3.6 liters per capita. In the United States, the most popular sports drink brands are Gatorade, BodyArmor, and Powerade. Gatorade was the biggest sports drinks brand in the United States in 2021, with unit sales of \$1184.4 million in U.S. convenience stores. Followed by BodyArmor with a unit sales of \$297.7 million [12]. Drinks that were originally intended for athletes alone are now gaining popularity among non-athletes as well. Nevertheless, some worries are raised by this new movement. Due to the high sugar content and artificial colors in some sports beverages, industry experts are concerned about potential health hazards. BodyArmor has capitalized on the rising trend of athletes' heightened health consciousness. And, with its all-natural ingredients, it has already outperformed Coca-Cola's other sports drink brand, Powerade, in terms of market share by appealing to more health-conscious consumers. By acquiring BodyArmor, Coca-Cola could hence enlarging its market share in the us sports drinks industry.

Even though the market for sports drinks is expanding rapidly, it is still difficult to capture consumers' money and interest. Instead of being a uniform consumer market, US market has a very heterogeneous population. Capital cities and tier 1 cities, which are highly globalized segments, will be major targets for BodyArmor because of their greater consumption levels and propensity to purchase health goods. They will be the primary consumers of BodyArmor, and because they are more concerned about their health, they tend to choose premium and upscale products which emphasis more about natural ingredients. In contrast, the states with slower economic development are likely less concerned with the contents in sports drinks. Sports drinks fans from those areas will be lured to the most price competitive brands, like Powerade.

Therefore, Coca-Cola could focus its distribution of BodyArmor on the capital city and first-tier cities in U.S. Coca-Cola should differentiate BodyArmor and Powerade by portraying the former as a luxury product and the latter as a more widespread product, in the expectation that this would help the sports drink market grow further. With its unique natural flavors and ingredients, BodyArmor should be able to differentiate its brand by emphasizing premium quality to compete with other U.S. brands. The Price Positioning Map of Sports drink Brands as shown in Figure 3.

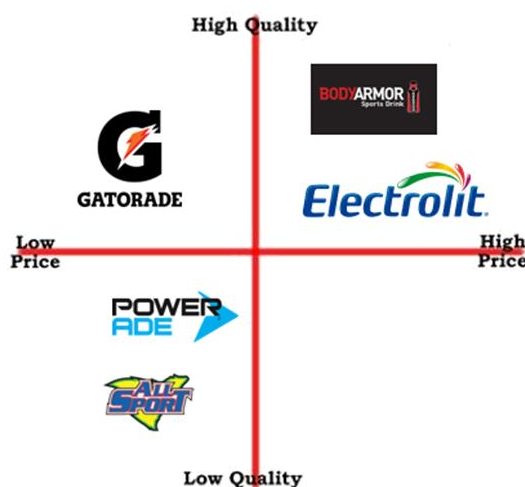


Fig 3. Price Positioning Map of Sports drink Brands.

In summary, the market for sports drinks exhibits significant development potential. Coca-Cola is now well-positioned to compete with Gatorade and has significant growth potential in the US market with to the acquisition of BodyArmor.

#### 4.2 Product: Expansion of Coca-Cola’s Portfolio

The Boston Consulting Group created the growth share matrix as a planning tool, it employs visualization tools of a company's products and services to assist it in deciding what the company should maintain, sell, or invest more in.

The current Coca-Cola soda products are the company's cash cows shown in Table 1, since they offer higher returns but are subject to slow growth rates because of growing regulation toward soda drinks and consumers’ raising awareness toward health circumstances [13]. This explains why Coca-Cola maintains a cash reserve of more than \$10 billion at all times. Investments in a market with a question mark (high growth rate but low market share now) should be made with the money obtained from the soda drinks industry. As previously demonstrated, the sports drinks market definitely has more favorable growth rates than the soda market. Therefore, Coca-Cola must make use of its financial edge over competitors to invest BodyArmor and it would generate adequate returns due of the strong growth rate.

**Table 1.** Growth share matrix.

		Market share	
		High	Low
Growth	High	Star	Question mark
	Low	Cash cow	Pet

Instead than starting from scratch, the acquisition is without a doubt the most effective approach for Coca-Cola to complete and broaden its range of beverages. It enables Coca-Cola to use BodyArmor's current technological, production, and human resource resources for sports drinks. So far, BodyArmor has already published four kinds of distinctive products, shown in Table 2.

**Table 2.** Product line of BodyArmor.

	Name	Charaterstics
1	BodyArmor Sports Drink	The flagship product
2	BodyArmor Lyte	Same nutrients as BodyArmor Sports but only 20 calories and 2 grams of sugar per bottle
3	BodyArmor Edge	Caffeine electrolyte drink
4	BodyArmor Sportwater	Alkaline water and electrolytes drink

Each product targets a precise group of customers, an acquisition of BodyArmor helps Coca-Cola to obtain a full range of sport drinks product. Furthermore, BodyArmor's current manufacturing capability might be used to capitalize on economies of scale (EOS). With increased revenues from Coca-Cola, EOS would have the ability to cut the average cost of manufacturing due to the larger scale.

Additionally, BodyArmor's current human resource team would be beneficial to Coca-Cola because they already have decades of expertise in the sports drinks market. According to senior manager from Coca-Cola, they will keep BodyArmor whole management team. More crucially, Coca-Cola and BodyArmor could pool their resources to create new goods. Coca-acquisition Colas of BodyArmor gives the firm a 22% share of the US energy drink industry, trailing Gatorade's 67.7% share [7]. If Coca-Cola could continue to innovate and remain relevant with today's customers, they may be able to take over more market share from Gatorade. As a result, the acquisition of BodyArmor's products broadens Coca-Cola's current portfolio, and this diversification undoubtedly provides several benefits in terms of enhancing profitability. Coca-Cola could not only capitalize on BodyArmor's current brand image and consumer devotion, but the two separate goods would also hedge each other's risks, so lowering Coca-Cola's possible dangers.

### 4.3 Place: Coca-Cola's Distribution

Coca-Cola have been using its enormous distribution network and existing strategic partnerships with numerous vendors to increase BodyArmor sales before the acquisition. Coca-Cola already has a well-established worldwide supply chain network. As a result, because the average shipping cost is lower for each product, the transportation cost of all retail items would be reduced owing to internal economies of scale. The cost of goods sold savings would be turned into a higher profit margin.

In addition to cost savings, Coca-Cola might increase income by distributing BodyArmor products to its key partners. Coca-Cola has strong partnerships with two categories of business partners as a Food & Beverage leader: retailers such as convenience stores and wholesalers as Walmart and Target.

Last, with partners all over the globe, Coca-Cola could use its strategic relationships to distribute BodyArmor goods and expand BodyArmor's global image, developing a strong, well-supported brand in the sports drinks industry and diversifying its own product line.

### 4.4 Promotion: Celebrity endorser and sponsorship

BodyArmor is currently partnered with several high-profile sportsmen like NBA players James Harden and Trace Young, as well as baseball player Mike Trout. In 2021, Body Armor has shot its newest advertisement and its campaign "One More" with their superstar athletes' partner [14]. Also, Kobe Bryant, became the company's third largest stakeholder in 2013 and has been actively supporting the brand's marketing and promotional efforts since then. These celebrities have given BodyArmor significant publicity and made the product recognized to a larger audience. It also help to build the premium brand image of the drink as the athletes who have high dietary requirements will also drink this for energy supply. In the future, Coca-Cola should sponsor more major sports games to achieve the effect of free advertising as sports games have a lot of viewers all around the world. BodyArmor needs to raise brand awareness in order to gain more market share to compete with Gatorade.

## 5. Field Force Analysis

While subjective in nature, the force field analysis below summarizes the previous findings. Arguments in favor of the acquisition vastly outnumber those against it. The most crucial factors, are positive market circumstances and the potential to diversify the portfolio. Both factors are given force of four. As stated in the pricing section, Sports Drinks Market is growing steadily in US with no regulatory policies. As a result, it has a more promising future than soda. Furthermore, in a favorable climate, the return on investment will be quicker and easier to achieve. Diversity of the product portfolio is unquestionably important for risk mitigation. Coca-Cola can manage risk by diversifying their product portfolio well. Cash on hand and benefiting from economies of scale are less relevant considerations. While this improves margins and liquidity, it may not have the same impact as the previous two tactics. As a result, these two factors are assigned a weight of two. High premium is the most critical limiting constraint with weight of 4. Yet, this is compensated by the cash on hand with Coca-Cola. Nevertheless, the sports drink business is very competitive, with Gatorade controlling 67.7% of the market share in the United States. Body armor now has the second greatest market share in the United States. If Coca-Cola successfully brands BodyArmor as a premium brand, it may help separate it from Gatorade and attract the premium category. As a result, the weight is 3. Lastly, cannibalization may occur among Coca-Cola's other sports drink brand-Powerade. If Coca-Cola concentrates too heavily on BodyArmor advertising, some Powerade customers may switch to BodyArmor. The amount of this effect, however, might be lessened by differentiating the two brands. Coca-Cola plans to make Powerade a more affordable product, while Bodyarmor is a premium sports drink. Therefore, this factor is weighted as 2.

As a result, the total of the driving forces is 12, whereas the total of the restraining forces is 9. The driving factor is more important, demonstrating how this purchase can help Coca-Cola develop in the sports drink market and enhance profit margins. Field Force Analysis is a helpful business technique

for assisting with decision-making. Yet, it is still subject to Coca-Cola's best knowledge at this moment. Coca-Cola might revisit the weightages allocated after a year or two of deployment to either validate this choice or make strategic changes if necessary.

## 6. Conclusion

In summary, the evaluation of Coca-Cola's acquisition of Body Armor is carried out through an assessment of Coca-Cola's financial statement in order to evaluate its financial performance. Following that, the Price Positioning Map was utilized to precisely explain the global sports drink industry evolution and pinpoint Body Armor's intended brand image. The Growth Share Matrix was then used to show Body Armor's diverse array of sports drink products and how it would diversify Coca-Cola's portfolio. Finally, Field Force analysis is used to assign weightage to all of the elements stated in order to assess the short-term and long-term consequences.

In conclusion, despite the large acquisition number, the study suggests that the acquisition provides a lot of diversification benefits in terms of the synergy formed. Ultimately, it is considered that the acquisition would be extremely beneficial in assisting Coca-Cola's expansion into the sports drink industry. Body Armor would be the final missing component in Coca-Cola's aim to create a "complete beverage" corporation. Nevertheless, the legitimacy of the sources and the availability of this research resources limited the dependability of the research evidence. The author was unable to undertake primary research due to the magnitude of the two firms. As a result, the sources the author investigated in secondary study reduced the accuracy of the analysis. Financial numbers, for example, may have been altered. To ensure accuracy and fairness, the author used data from trustworthy third-party websites. Furthermore, because Body Armor is not publicly traded, its financial statistics are not available online. Additionally, since Coca-Cola's financial report does not include a separate financial analysis of Body Armor as a brand after the acquisition, the author could only conjecture on the influence of the acquisition of Body Armor on Coca-Cola by comparing the changes in Coca-Cola's finances before and after the acquisition.

In addition, the transaction was finalized in 2021. COVID-19's impacts continue to be recognized throughout the worldwide sports industry. This occurs because sports and outdoor exercise were severely limited for the most of 2021. Additionally, as a result of uncertainty of the situation, different leagues, tournaments, and even Olympic events were postponed, which curtailed sports and gaming activities and definitely had a negative influence on sports drink sales revenues. Nonetheless, it is anticipated that the sports drinks market will gradually recover over the course of the projection period as professional and general public engagement in sports is increasing. Further study might be undertaken with greater time and resources to examine market fluctuations as well as changes in the behavioral patterns of sports drink customers in order to evaluate Coca-Cola and Body Armor's prospects in this new era.

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