

Research on Competitive Strategy of Coca-Cola Company

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ABSTRACT

In recent years, there are more and more kinds of drinks, people's demand for drinks is increasing, and the competitive pressure in the beverage market is also increasing year by year. Coca-Cola has been a leader in the beverage market for a long time, and the reasons for its success are worth our in-depth analysis. This paper analyzes the internal and external situation of Coca-Cola company through Porter's Five Forces model. It analyzes the competitive strategy of Coca-Cola Company to obtain the reasons for the success of Coca-Cola Company. Coca-Cola uses the differentiation competition strategy to improve its core competitiveness, brand awareness, consumer loyalty, and value awareness to occupy a dominant position in the industry. This paper can provide a reference for more soft drink enterprises through the analysis of Coca-Cola's competitive strategy.

Keywords: *Coca-Cola, Five force analysis, Differentiation strategy.*

1. INTRODUCTION

The Coca-Cola Company is an American corporation founded in 1892, engaged primarily in the manufacture and sale of syrup and concentrate for Coca-Cola, a sweetened carbonated beverage. The company also produces and sells other finished beverages. With more than 500 brands available in over 200 countries and 2 billion servings a day, Coca-Cola is the world's largest beverage manufacturer and distributor. Coca-Cola has always been the leader in the soft drink industry. However, after years of development, the soft drink industry is approaching saturation. Maintaining a high level of development and customer loyalty in this situation is an urgent problem for them to consider and solve. However, as the beverage market continues to expand and people's life becomes increasingly rich, the demand also expands, and the expectation of multi-beverage is far greater than before. At this time, more and more kinds of drinks appeared one after another, and Coca-Cola also began to enter other markets and implement the diversified and differentiated management strategy. Coke's differentiation strategy has made its products from coffee to tea, juice drinks to sports drinks and water, as well as carbonated drinks, the most familiar names in the world.

Professor Michael Porter of Harvard University pointed out that strategy creates a unique and valuable market position. He then put forward three general strategies: total cost leading, differentiation, and concentration strategies. The so-called differentiation strategy, "that is, enterprises provide unique products or services recognized by the whole industry", can be a pre-emptive strategy or a later strategy. Competitive strategy is a part of enterprise strategy, which guides and manages the plans and actions of specific strategic business units under the restriction of the enterprise's overall strategy. The core problem to be solved in an enterprise's competitive strategy is establishing and maintaining its products' specific position by determining the relationship among customer needs, competitors' products, and its products. Differentiation strategy refers to the enterprise strives to be unique in the industry in aspects that customers widely value. It can be either a pre-emptive strategy or a strategy of striking only after the enemy has struck. The famous cliché that "give is rewarded" captures the essence of differentiation strategy. Companies that follow a differentiation strategy try to persuade customers to pay extra for their goods or services by providing unique and desirable features [1]. When the customer demand is diversified, the industry differentiation is not high,

and the market competition is fierce, enterprises choose to adopt a differentiation strategy according to their resources and capabilities and create creative products to gain a place for themselves. The focus of the differentiation strategy is to create recognized unique products and services [2]. The realization of this strategy can cultivate users' loyalty to the brand and ultimately make enterprises obtain profits higher than the industry's average level. The implementation of differentiation strategy can be divided into product differentiation strategy, service differentiation strategy, personnel differentiation strategy, image differentiation strategy, and so on [3].

Differentiation strategy does not apply to all industries. It is difficult for some industries to carry out product innovation, and it is difficult for consumers to accept innovation in some industries. At the same time, it is difficult for any enterprise to hold a certain difference for a long time [4].

In conclusion, based on Coca-Cola's current situation and strategic theory analysis, we find that Coca-Cola's outstanding performance in the beverage industry is due to its good action in strategic choice. According to Porter's five forces analysis model, this paper takes Coca-Cola company as an example from the overall strategy perspective, studies how to find its own appropriate positioning, and quickly formulate strategy.

2. METHOD AND DATA

2.1. Method

Case studies play an important role in business research [5]. The case study is a type of research method commonly used in social, educational, clinical, and business research [6]. A business case study is simply a story about how you successfully deliver a solution to your client. It includes a deep and detailed investigation of a specific case. It is best defined as “an intensive study of a single unit to generalize across a larger set of units” [7]. A business case study is used to study the

business problems of enterprises systematically. The method is to identify and analyze the research-oriented problems to create new knowledge or learn better methods to solve the problems related to these problems [8]. It can demonstrate the local community's value when they are involved in the development of the brand. The case study can show the clear connection between each problem that the case shows. In addition, a case study research design usually involves qualitative methods, but quantitative methods are sometimes also used. Case studies are good for describing, comparing, evaluating, and understanding different aspects of a research problem.

This text takes Coca-Cola as an example. Theoretically, the Coca-Cola company has successfully selected and implemented the differentiation strategy, defined and adhered to its positioning. So, it can stand out in the fierce competition in the soft drink industry, continuously occupy a large market share for many years, and have a large customer group with high loyalty.

2.2. Data

This paper takes the Coca-cola Company as the research object. For one thing, this study's data comes from the survey and interview of the middle and senior managers of Coca-Cola company to obtain first-hand information combined with theory and data analysis to study the implementation of Coca-Cola company's competitive strategy. For another, the second-hand information obtained from online related information, including annual reports on the official website of Coca-Cola Company, China National Knowledge Infrastructure, and Google Scholar.

The data collection of the case enterprises used in this paper began in 2020, and the investigation lasted for more than 3 months. The final determination of the theoretical framework includes theory extraction, data collection, data analysis, and data verification.

Table 1. The main overview of the data collection of the selected enterprises in this article

Interview Enterprises	Interviewees	Topic
Coca-cola North America	Director, Refreshment Tea Brands	Paying it forward, the power of kindness, doing the right things for those around you
Coca-cola Company	Chairman and CEO James Quincey	Make sure the consumer remains the center of every decision they made
Coca-Cola Europe, Middle East and Africa (EMEA)	Walter Susini, VP of marketing	refresh the world and make a difference

The main financial data analysis methods in this paper are horizontal analysis and ratio analysis. Horizontal analysis is used to compare historical data

from multiple accounting periods. These data reflect the changes of corresponding financial statement account amount over some time, which helps to determine the

changing trend of Coca-Cola Company from 2018 to 2020 and the changing trend of Coca-Cola Company's future financial situation [9]. Ratio analysis is a kind of quantitative analysis used to obtain financial performance indicators of a company in key accounting areas [10].

According to the Income Statement, there are some changes from 2018 to 2020. As shown in Table 2, Net Operating Revenue increased by 17% in 2019 but decreased by 11.4% in 2020. As a result of the decrease in Net Operating Revenue, Gross Profit decreased by 13.5% in 2020. The negative impact on net operating

revenue and profit may be due to the United Kingdom's withdrawal from the European Union, or events such as natural disasters, widespread outbreaks of infectious diseases (such as the COVID-19 pandemic), power outages, labor strikes, political uncertainties or governmental instability. Moreover, Cash and Cash Equivalents in 2020 is 5% more than 2019, but 24% less than 2018. From 2018 to 2020, the Short-term investments decreased by 27.6% in 2019; however, they increased by 20.7% in 2020. As a result, the Total Asset increased by 5%. The Total Current Liabilities decreased by 50%.

Table 2: Main Financial Data in Consolidated Statements for Coca-Cola Company

Amounts in millions, except per share data	Fiscal years ended January 31		
	2020 (\$)	2019 (\$)	2018 (\$)
Net operating revenue	33,014	37,266	31,856
Cost of goods sold	13,433	14,619	11,770
Operating expense	10,584	12,561	11,386
Gross profit	19,581	22,647	21,233
Operating income	8,997	10,086	8,700
Cash and cash equivalents	6,795	6,480	8,926
Trade account receivables	3,144	3,971	3,396
Short-term investments	1,771	1,467	2,025
Total asset	87,296	86,381	83,216
Total current liabilities	14,601	26,973	29,223

Table 3: Profitability Ratio for Coca-Cola Company

Subject/Year	2019	2020
Basic earnings per share (\$)	2.09	1.8
Diluted earnings per share (\$)	2.07	1.79
Net Assets Per Share (\$)	4.43	4.49
Cash Flow per Share (\$)	2.44	2.29
Capital Reserves Per Share (\$)	4	4.09
Operating Income per Share (\$)	8.7	7.67
Operating cycle (days)	116.4	127.83
Inventory days (days)	79.42	89.04
Inventory turnover rate (times)	4.53	4.04

Accounts receivable turnover days (days)	36.98	38.79
Accounts receivable turnover rate (times)	9.74	9.28
Current Assets Turnover Ratio (times)	1.64	1.67
Fixed assets turnover rate (times)	3.65	3.05
Total assets turnover ratio (times)	0.44	0.38
Relative Growth Rate of Net Assets Per Share at the Beginning of the Year (%)	11.36	1.25
The relative growth rate of total assets at the beginning of the year (%)	3.8	1.06
The growth rate of shareholders' equity attributable to the parent company at the beginning of the year (%)	11.78	1.68
Current ratio	0.76	1.32
Quick ratio	0.63	1.09
Equity Ratio (%)	3.44	3.42
Total equity/liabilities attributable to shareholders of the parent company (%)	0.29	0.29

3. RESULTS

Based on the above data, we find that Coca-Cola's differentiation strategy is mainly reflected in the

following aspects: product differentiation, service differentiation, personnel differentiation, marketing channel differentiation, and promotion differentiation.

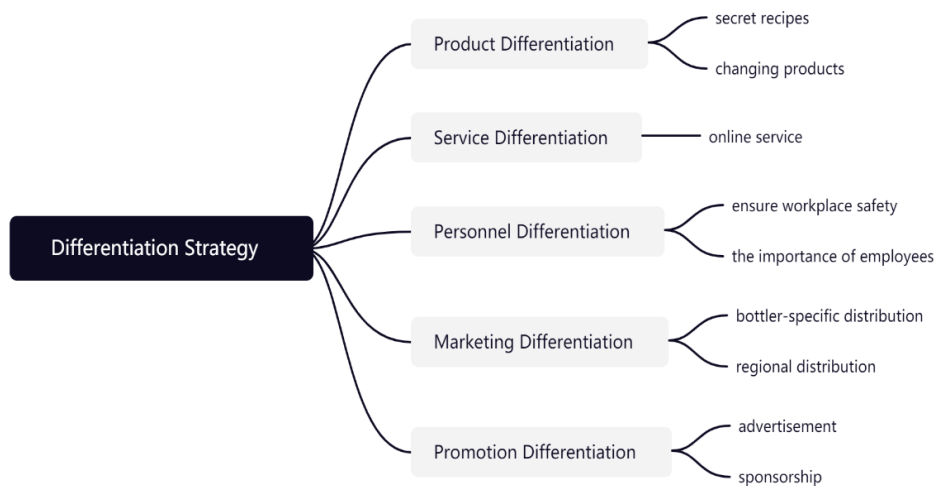


Figure 1 Overview of Coca-Cola differentiation strategy

1)Product differentiation

Coke has secret recipes, and to meet people's tastes and preferences, the company is making changes through the following four actions: reducing added sugar, making smaller packages, offering more drinks with additional nutrition and hydration benefits, giving people the information. It has introduced a number of

healthy products, including health drinks and juices, aimed at health-conscious customers.

2)Service differentiation

Coca-Cola maintains its customer service practices via online chat with a virtual agent on the official website of the company's dedicated customer service phone.

3) Personnel differentiation

The company pays employees good salaries and also complements the payments with rewards. They also give them more than 700,000 associates within the Coca-Cola system the tools, training, and resources needed to ensure their safety.

4) Marketing channel differentiation

This part includes two levels. The primary level involves distributing the concentrates and syrups to various bottlers throughout the world. The secondary level involves bottlers distributing the final beverage products to their respective geographical markets. The company also uses two routes under its secondary distribution level. The first involves distributing the ready-to-consume products via retail distributors. In contrast, the second involves distributing the concentrates and syrups and ready-to-consume products to restaurants and other food preparation businesses.

5) Promotion differentiation

First is Coca-Cola AD. Coca Cola employs celebrity endorsements and uses the super attraction of stars, which is beyond the reach of ordinary advertisements in the complex media environment. Because stars unconsciously have attracted the attention of target consumers to the information demanded by advertisements. They can affect consumers' emotions, attitudes, and buying behavior and increase target consumers' favorable impression of the brand exponentially. In its series of advertisements, Coca-Cola uses stars with distinct personalities to explain its unique personality. The image of stars perfectly integrates with the brand and brings out the best in each other so that the advertising effectively improves the brand value. Coca-Cola is good at using mass media and spares no effort to build its own network transmission system. Coca-Cola Chinese website, for example, Coca-Cola can speak Chinese elements in various festivals in China and integrate them into the Coca-Cola Chinese website. Through the mass media and network interaction, Coca-Cola maintains the continuity and consistency of online and offline advertising to highlight the effectiveness of the media integration.

The second is the sponsorship by Coca-Cola. Sponsorship is a form of public relations. Coca-Cola sponsors sports, education, culture, and other activities to strengthen its brand image, enhance its brand reputation and create a drinking atmosphere to promote the sales of its products. Sponsor world and Chinese football. Globally, football has been one of Coca-Cola's most important sponsorship and its most valuable market asset. As a long-time partner of FIFA and the World Cup, Coca-Cola has been one of the major sponsors of every World Cup since 1974 and has an undisputed global leader in advancing the sport of football. The spirit that runs through football is exactly

the core value that the Coca-Cola brand has always advocated. In China, Coca-Cola's support for The cause of Chinese football has enabled it to properly localize its brand's global connection with football, thus establishing a powerful emotional communication model with Chinese fans.

Finally is the Coca-Cola promotion. Coca-Cola has a special sale. A method of lowering prices periodically during a specified period to promote sales. Special sales, generally in festivals and soft drink sales season, or fierce competition to use more. During the Spring Festival in 2002, Coca-Cola in C city carried out the promotion activity of "special sale of limited time and limited quantity" in the supermarket channel. From the peak time when the supermarket has the largest customer flow, the daily activity time is limited to 2 hours. Special sales are carried out for its PET1.5 L and 2.25 Coca-Cola series products (Coca-Cola, Sprite, Fanta, striking), producing a good promotion effect. Coca-Cola also has incremental packaging. The price of the product remains the same, but the packing capacity has increased. For example, coke's previous products with 1.25-liter and 2-liter PET packaging capacities were later increased to 1.5 liters and 2.25 liters, respectively. However, the price was still sold according to the standard before the increase of capacity. In other words, incremental packaging is a "volume without price" method of promotion.

4. DISCUSSION

Porter's five forces framework (rivalry existing competitors, threat of new entrants, power of suppliers and buyers, substitute products and services) is based on the perception that an organizational strategy should encounter the opportunities and threats in the organization's external setting [9]. The constraints among them can determine the intensity of competition and affect the profitability potential of the industry. Analyzing these five aspects of their own competitive environment can be very good to formulate the corresponding competition strategy and establish the industry advantage.

1) The threat of new entrants

New entrants in the industry bring new production capacity and resources simultaneously, hoping that the existing enterprises have been finished in the market to win a place. It is likely to compete with the existing raw material enterprises for market share and eventually led to lower existing corporate profits in the industry. That may seriously endanger the survival of these enterprises. The severity of the threat of competitive entry depends on two factors, namely the size of the barriers to entry and the expected response of existing enterprises to entrants.

Coca-Cola Company processes low customer switching costs and high capital requirements. From operations to marketing, every part requires a large investment, and it will take some time for any brand to build customer loyalty. Some local brands may start on a smaller scale but still need to invest heavily in marketing and hiring qualified staff. The level of customer loyalty in the industry is moderate, and it will take some time for any brand to build customer loyalty.

2) Bargaining power of suppliers

Suppliers influence the profitability and product competitiveness of existing enterprises in the industry mainly through their ability to increase input factors and reduce the quality of unit value. The strength of the supplier power mainly depends on what kinds of inputs they provide to the buyer. When the value of the input elements provided by the supplier accounts for a larger proportion of the total cost of the product, the buyer is very important for buyers product production process, or seriously affect the buyer the quality of the product, the potential bargaining power of suppliers against buyers is greatly enhanced.

Coca-Cola has many suppliers, with a large number of suppliers, forward integration difficulties, and low switching costs. Coca-Cola can easily switch from one supplier to another. While there are several suppliers, the size of individual suppliers is small or moderately large. Moreover, forward integration is a distant possibility for most of its suppliers. Even if there are no substitutes for raw materials like sugar, the number of suppliers is still high. Therefore, coke's suppliers have low bargaining power.

3) Bargaining power of customers

Buyers affect the profitability of existing enterprises in the industry mainly through their ability to lower prices and demand higher quality products or services.

Individual customers generally buy small volumes and are not concentrated on one specific brand. However, the level of differentiation is low. Switching costs are low for customers, and they do not price sensitive. Backward integration is not a possibility for the customers. Therefore, the bargaining power of customers is not high.

4) Threats of substitutes

Two enterprises in different industries may compete because the products they produce are substitutes for each other. Such competition derived from substitutes will affect the competitive strategies of existing enterprises in the industry in various forms.

The main substitutes for Coca-Cola products are the beverages made by Pepsi, fruit juices, and other hot and cold beverages. The number of substitutes for Coca-Cola is high. There are several juices and other kinds of

beverages in the market, and the switching costs are low for the customers. In addition, the quality of those is good enough. Therefore, the substitute has strong bargaining power.

5) Industry rivalry

There are two major players in the soda industry, Coca-Cola and Pepsi. The rivalry between the two major players is intense. There are a few smaller players, too, but they do not pose a major competitive threat. The two main players are of the same size, and they have similar products and strategies. The level of differentiation between the two brands is also low, and therefore the price competition is intense. And barriers to exit are high. This is because the Coca-Cola Company has a long history in the soft drink industry, with long-term and huge advertising investment, making Coca-Cola a symbol of American culture. Therefore, the industry rivalry is high.

5. CONCLUSION

By clarifying the competitive environment of the industry, Coca-Cola Company complies with the development of the times. It widens the litigation points of consumers. Also, it meets the multidimensional needs of consumers through the combination of various differentiation strategies to make Coca-Cola take a leading position in the competitive soft drink industry.

Differentiation strategy differentiates a company's products, services, and corporate image from its competitors to gain a competitive advantage. This strategy aims to create products and services that are perceived as unique by the industry and customers. Differentiation strategy has many methods, such as product differentiation, service differentiation, and image differentiation. Coca-Cola uses the product differentiation strategy to enable the company to obtain profits higher than the average level of the same industry.

The soft drink industry has a long history and is gradually diversified. In the future, it will attract more players, and the competition will be more intense. The results show that when the homogeneity of products in the industry is high, the advantages of differentiation strategy can be better reflected. Soft drink enterprises should actively use differentiated marketing strategies to improve their core competitiveness and brand identification, cultivate consumer loyalty and value identity, and realize the sustainable and healthy development of soft drink enterprises.

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