Advances in Economics, Business and Management Research, volume 219
Proceedings of the 2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022)

The Impact of COVID-19 Pandemic on Financial Performance of Coco-Cola

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ABSTRACT

The purpose of this research is to analysis the financial performances of Coca-Cola before and during the COVID-19 pandemic. The method of researching in this paper includes industry dynamic analysis, financial analysis and ratio analysis. The industry dynamic analysis demonstrates value chain, SWOT, genetic strategies and Porter's five forces which could make influences on the financial performances of Coca-Cola. The financial analysis mainly focusses on revenue analysis, goodwill analysis and common size analysis to show the changes in overall size of the company. And the ratio analysis is divided into profitability, liquidity and solvency respectively, in order to analyze the financial performances from financial detailed data, with the help of DuPont analysis. The main research result is the financial performance of Coca-Cola would decrease in a short term because of the unforeseeable COVID-19, but it could increase in the long term.

Keywords*: Coca-Cola Company, COVID-19 Pandemic, Financial Performance.*

1. INTRODUCTION

Coca-Cola is an American multinational established in 1886 and is a world's best-known beverage brands, with 160 beverage brands [1]. COVID-19 is also knew as the novel corona virus disease was first founded in Wuhan， Hubei in December 2019.The COVID-19 pandemic spread around the world within a short time, and it has impacted on both public health and business filed, especially on food and beverage industries [2].

Since the pandemic began, governments formulated policies to minimize the virus spreads, for example, reducing public going outside, limiting the number of restaurant guests and restricting the logistics industry. It has impacted on most business industry such as catering industry, tourism industry and manufacturing industry. As a result, the unemployment rate will increase which lead to the demand of customers would decrease in every business area, as the consumers' disposable property could decrease. And for the sake of health, people prefer to stay at home rather than go out for consuming in their free time. The impact for business could be separated from two main parts, short term or long term and the enterprise scale. Due to the Coca-Cola company is a large global enterprise that means the company is under a more comprehensive and orderly financial and organization system, which could better maintain the company operation stability in the face of risks. In a short term, the financial performance could be hit a little on account of the COVID-19 epidemic swept the world in a such unexpected and rapid way, as Coca-Cola company had not got a sufficient preparation for this challenge. However, in the long term, it could maintain a growing trend in financial performance as pledged by Coca-Cola to its shareholders in July 2020, they would emerge stronger, win more customers, gain market share, retain strong system economics, broaden their effect across stakeholders, and better prepare their company to succeed in the future [3].

2. INDUSTRY ANALYSIS

2.1. Political Factors

The Coca-Cola company is regulated by regulations and laws administrated by local government agencies and state and federal of the United States in every procession of the business, such as storage, production, display and advertising. According to the United States Soft Drink Interbrand Competition Act, Coca-Cola as a soft drink bottler is allowed to product, sell and distribute soft beverage in a defined region if that product is in effective and substantial competition with other products of the general identical category in the market. This law could help Coca-Cola Company benefit from reducing the expenditure of bottling and get more profit from this, as there is a considerable spending for Coca-Cola company to product bottles every year [4].

2.2. Economic Factors

During the year 2019 to 2020, the Covid-19 pandemic has swept around the world, the pandemic has resulted significant hardship and in the early phase of the crisis. It has leaded of millions of people lost their job, and the unemployment remained high throughout 2020.Based on the poor economy, Coca-Cola company has also impacted from and redundant the employees because of this. Besides, the overall sales of Coca-Cola have also reduced a lot during the pandemic.

2.3. Sociocultural Factors

Due to the health consideration is becoming popular around the whole society, people are starting to pay attention on their dietary health issues. As the sugar content is relatively high in most soft drink, and high proportion of unhealthy ingredient in these products, people chose to refuse consuming them and replace them with water, tea and coffee. This could worse off the company from selling the soft drink as much as usual.

2.4. Technological Factors

Coca-Cola company has been advertising the products on social media and television。This is a way for the company to promote the program with modern technology. And the company also keep improving the packaging design of the soft drink which could attract more consumer to pay for them. Moreover, due to the advance of technology, Coca-Cola also introduces new equipment in the production progress, and the production has increased in the past few years with lower cost.

3. BUSINESS ANALYSIS

3.1. SWOT

3.1.1. Strengths

First, Coca cola has a long tradition in the beverage sector, it has built a mature production and management, the suppliers prefer to build cooperate relationship with Coca-Cola. Coca-Cola can supply more commodities and cost less than smaller enterprises in the market. Some new companies do not have the ability to compete with Coca-Cola, especially during COVID-19, countless small companies have bankrupted. Therefore, it is good for Coca-Cola to develop. Secondly, the geographical footprint of Coca-Cola has spread all over the world, it has a Strong distribution network. The capacity of Coca-Cola to use its own and regulated distributors, and independent bottlers, distributors, and retailers, is not quite the same. Coca-Cola may use the method to keep costs under control, release new products fast, and saturate multiple local markets. Thirdly, Coca-Cola has attracted a lot of cores following for its own unique formula beverage and good advertisements, with many customers who believe themselves to be admirers of the company's products are unlikely to convert to another brand. Although the pandemic could decrease a part of purchasing demand, the core followers would be not willing to stop consuming it.

3.1.2. Weakness

The main problems are from high price risk, product diversity shortages and organization management. During COVID-19, price risk on commodities such as aluminum, corn, PET resin and crude oil, which affects the cost of raw materials have made a considerable loss for Coca-Cola [5]. Product diversity shortages is another problem for Coca-Cola. Most income of Coca-Cola Company come from its carbonated beverages which account for 69% proportion. It is an obvious reflect of product diversity shortages. And as coca cola is a big mature company, the organization is large and difficult to manage as well. It is a high proportion for company expense to pay for salaries, then Coca-Cola faces layoffs during pandemic.

3.1.3. Opportunities

First, Coca-Cola can come out with new products such as some healthy food or non-carbonated beverage from time to time, which can both satisfying some consumers and diversifying their departments. Then, they can also expend their business in developing countries. For example, the Middle East and Africa area could be continuing to develop their businesses. Finally, the company can also seize the opportunity of online sales, thus people during pandemic could buy their products easier and safer from internet, then the sales of products will increase as well.

3.1.4. Threaten

For threaten of Coca-Cola. Coca-Cola is supposed to pay attention to competitions and the improvement of consumers' health awareness. Substitute for beverage industry mostly come from water, home-made drinks, coffee made in coffee shops and some new industries like bubble tea. They are keeping eroding the company's market share. On the other hand, Coca-Cola and other carbonated drinks are considered as harmful food by the medical community [6]. Consumers who are really concerned about their health may avoid purchase this type of beverage

3.2. Corporate Strategies

Coca-Cola belongs to cost leadership. It keeps low per-unit profit, large sales volume. Since it's a large enterprise with long history, it has been able to obtain economies of scale. Production skills are in a leading position in the industry, and cost leadership demands firms to have continual capital investment and finance capabilities. Coca-Cola meets these requirements. These make it strong in the price competition. However, during COVID-19 pandemic, the sales volume of products has decreased, the cost leadership strategy may take a hit.

3.3. Porter's Five Forces

3.3.1. Bargaining Power of Suppliers

Coca-Cola has a vast number of suppliers, as well as cheap switching costs. Coca-Cola has the flexibility to swap suppliers at any time. As a result, suppliers have little bargaining leverage with Coca-Cola, and suppliers do not want to lose such a huge customer.

3.3.2. Bargaining Power of Customers

Individual clients typically buy in modest quantities and are not loyal to a single brand. And there isn't a lot of distinction. They can have the similar drinks at the same time unless they are loyal to Coca-Cola's brand. As a result, the bargaining power of customers is not limited.

3.3.3. Threats of New Entrants

It is difficult to create a market monopoly in the beverage business since the capital inputs are minimal and the transfer costs are low, resulting in low barriers to entry. As a result, Coca-Cola has numerous prospective competitors.

3.3.4. Threat of Substitutes

The global beverage market has also been divided up by the need for tea and coffee. Customers may choose from a variety of juices and other beverages, and switching expenses are minimal. As a result, there are several Coca-Cola alternatives.

3.3.5. Industry Rivalry

On the one hand, since the Coca-Cola Company has a rich history in the beverage market and has made Coca-Cola a symbol of American culture via long-term and large advertising investments, industry competition is limited. On the other hand, the industry Rivalry with Pepsi is severe. The two primary players are similar in size, and their goods and methods are similar [7]. Because there is little difference in the two brands, there is a lot of competitive pressure.

4. FINANCIAL ANALYSIS

4.1. Revenue Analysis

4.1.1. Revenue Recognition

The recognition is in accordance with GAAP accounting standards [8]. The revenue is made by selling drinks and the revenue is relatively easy to recognize. The recognition is in line with common sense, through the number of drinks sold to recognize the amount of revenue.

4.1.2. The Impact of Strategy on Revenue

The brand portfolio optimization, networked management, brand development, creativity, digitization, sales growth management, and execution are the company's major strategies. Coca-Cola company has already emerged stronger. The net revenues of company have raised from 26.3 billion dollar to 38.7 billion dollar from the pre-pandemic year 2019 to year 2021. As a system, the company entered the crisis in a strong position, and the system was united and focused on winning. Coca-Cola used the crisis to accelerate the transformation of the business that was already under way. Coca-Cola has outlined its major goals for responding to the pandemic and placing the company on a growth path, which include gaining more customers, increasing market share, established a positive systems economy, improving effect on stakeholders, and equipping the company to succeed in the future. And the financial performance of company has surpassed previous pandemic levels in terms of comparable revenue, comparable earnings and cash generation.

4.2. Goodwill Analysis

There is significant amount of goodwill on their balance sheet for the main reason: acquisition. Coke acquired Costa Coffee for $5.1 billion in 2018, Fairlife for $989 million in 2020 and BODYARMOR for $5.6 billion in 2021. Coke acquired Fairlife because it has its own advantages. "Fairlife is an excellent demonstration of how we are expanding our beverage portfolio to provide customers more of the brands they like." explained by Jim, Coca-Cola North America's president. He said the reason why they acquired Fairlife [9].

Coca-Cola has goodwill impairments, a total reduction of 51 million. These impairments are mainly due to the decrease in the number of customers, the loss of talent, and the decrease in customer loyalty. Firstly, due to COVID-19, it is hard to ship goods, so the number of consumers has decreased. Secondly, the COVID-19 pandemic has accelerated the soft drinks restructure which leads to a widespread closure of venues where Coca-Cola products are sold. To deal with the COVID-19 situation, Coca-Cola intended to lay off 4000 people in the United States, Canada, and Puerto Rico, perhaps causing a brain drain.[10]. Thirdly, customer loyalty is reduced. The current global obesity problem is increasingly serious, which is directly related to the global food system controlled by big brand food companies, such as Coca-Cola Company. On account of the pandemic, public has concerned more about health from comprehensive aspects over before pandemic. As a result, carbonated drinks are out of favor.

Table 1. Goodwill on The Balance Sheet

	2021	2020
Goodwill	$17455	$17506

4.3. Common Size Analysis

4.3.1. Revenue

The company's revenue increased from 2018 to 2019 due to Coca-Cola's acquisition of Costa Coffee in 2018. Costa Coffee brings many opportunities to Coca-Cola company, and its product range has increased, attracting more consumers and increasing revenue. Revenue decreased in 2020, due to the impact of COVID-19. During the epidemic, people are more likely to pay for necessities of life, but Coca-Cola beverages are not necessities of life, so people's purchase of Coca-Cola products decreased, leading to a significant decline in revenue of Coca-Cola in 2020.

Table 2. Revenue on The Balance Sheet

Consolidated Statements of Income- USD ($) $ in Millions	Dec.31, 2020	Dec.31, 2019	Dec.31, 2018
Revenues	$33014	$37266	$34300

4.3.2. Trademarks and Goodwill

The trademarks and goodwill are on the increase trend. Well-known trademark is a special trademark that has accumulated strong market influence and appeal after long-term hard operation and use by the trademark owner. It represents a good reputation of the product or service among consumers. Coke acquired many companies, and this acquisition brought Coca-Cola huge customer base and profits, so its brand and goodwill became more valuable. The Coca-Cola system and the Coca-Cola Foundation, The Coca-Cola Company's philanthropy arm, are contributing to relief efforts throughout the world during COVID-19 [11]. It has helped improving the image of Coca-Cola company and increasing its trademarks value and goodwill.

Table 3. Trademarks with Indefinite Lives on The Balance Sheet

	Dec.31, 2020	Dec.31, 2019	Dec.31, 2018
Trademarks With Indefinite Lives	10395	9266	6682

4.3.3. Selling, General and Administrative Costs

The amount of indirect costs in 2018 and 2019 are basically the same, but in 2020 it decreased, which is mainly due to the downsizing of Coca-Cola Company because of COVID-19. Coca-Cola had to pay its employees less overall, so the administrative costs decreased.

Table 4. Selling, General and Administrative Expense on Income Statement

	Dec.31, 2020	Dec.31 ,2019	Dec.31, 2018
Selling, General and Administrative Expense	9731	12103	1100 2

5. RATIO ANALYSIS

5.1. Profitability

To begin with, net income is an essential source of statistics in terms of growth. Net operating revenue climbed by 17 % in 2019 but fell by 11.4 % in 2020, as seen in the table below. Gross profit declined by 13.5 % in 2020 as a result of lower net operating revenue. As a result, the net income growth rate jumped from 22% to 31.14% before falling to a negative 9.61% by 2020. Second, the pace of increase in sales reflects Coca-progress. Cola's The trend in overall sales growth is downward, and growth in 2020 is negative (-11.41%). Thirdly, Coca-Cola's profit margin improved from 21.82% to 29.01% during the last three years, despite the company's sales decreasing. Furthermore, the income statement's gross profit fell from $21.2 billion to $19.6 billion in the last three years. The net profit margin grew from 23.98% to 29.53% as a result.

Table 5. Sales Growth Rate between 2018 to 2020

	2020	2019	2018
Sales Growth Rate	- 11.41%	8.65%	- 3.13%

5.2. Liquidity

Coca-Cola has a current ratio of 1.32 in 2020, which is generally considered normal; that's increased a lot indicating the growth of assets over short-term debt since 2018, when it was 0.87.To reach a more precise result, the quick ratio is calculated which excludes inventory and other current assets, which are generally more difficult to turn into cash [12].

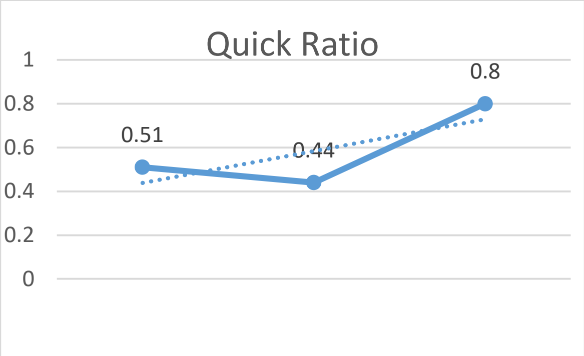

Figure 1. Quick Ratios between 2018 to 2020

There was a big progress in quick ratio in 2020 which means that Coca-Cola can pay off the liability.

5.3. Solvency

From the perspective of long-term solvency, some solvency ratios have been calculated as well.

Table 6. Long-term Solvency Ratios

Ratio/Year	2018	2019	2020
Liabilities to Assets Ratio	0.76	0.76	0.77
Liabilities to Shareholders' Equity Ratio	3.10	3.09	3.37
Long-term Debt to Long term Capital Ratio	0.65	0.57	0.57
Long-term Debt to Shareholders' Equity Ratio	1.89	1.30	1.33
ROCE	0.11	0.15	0.12
Capital Structure Leverage	4.1	4.22	4.49

From the data, the liabilities to assets ratio is relatively high, but for an international company it is common to have more liabilities than assets. In combination with other ratios, Coca-Cola has sufficient capacity to repay notes payable and loans.

5.4. Operational Capability

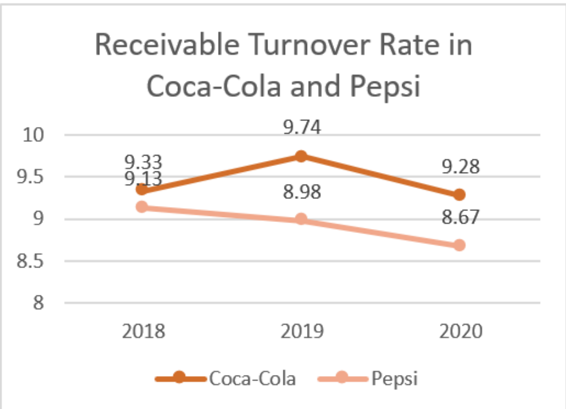

Figure 2. Receivable Turnover Rate in Coca-Cola and Pepsi

Coca-Cola has a greater receivable turnover rate as Pepsi, indicating better customer quality control and lesser liquidity risk. Furthermore, it shows that Coca-Cola performs well in terms of customer management and financial resource efficiency.

Other operation ratios listed below are all in a common condition, most turnover ratios have a higher ratio in 2019, as the second year 2020 financial performances have been impacted by COVID-19 pandemic. Although the ratios have decreased from 2019 to 2020, there is still a increasing trend for the financial performance in a long term. The increase in current asset turnover rate from 2.59 to 2.00, on the other hand, indicates that the company employed as little capital as possible to generate as much sales revenue as possible, implying that capital turnover is quick, capital usage is efficient, and profit is greater.

Table 7. Operational Ability Ratios

Ratio/Year	2020	2019	2018
Assets Turnover	0.38	0.44	0.41
Accounts Receivable Turnover	9.28	9.74	9.33
Inventory Turnover	4.04	4.53	4.06
Accounts Payable Turnover	1.20	1.40	1.43
Current Assets Turnover	4.00	3.91	2.59

6. DISCUSSION

From the table, the major financial metrics of ROE and the ROE are in a decreasing situation from the year 2019 to year 2020, which is the crucial year of COVID-19. The profit margin has decreased from 0.24 to 0.19, it is affected by changes in price and operating expenses. In this Coca-Cola case, interest expense has increased dramatically from 946 million to 1437 million. The reason of assets turnover decrease is mainly due to Coca-Cola's non-current assets, such as trademarks with indefinite lives and goodwill has increased, as the company acquired Fairlife and supported COVID-19 relief efforts to top 100 million dollar globally in 2020. Moreover, the amount of total assets is negative to assets turnover, then the assets turnover declined. Because ROA is the product of profit margin and assets turnover, it got a lower ratio which indicates there would be a better investment to engage. The leverage ratio has decreased, it means there is higher the proportion of total assets funded by equity and lower the proportion of total assets is funded by debt. Therefore, ROE has decreased since ROA and leverage both in a decline trend.

Table 8. DuPont Analysis Ratios

Ratio/Year	2020	2019	2018
ROE	0.41	0.50	0.38
Leverage	4.50	4.60	4.90
ROA	0.07	0.11	0.09
Profit Margin	0.19	0.24	0.24
Assets Turnover	0.45	0.47	0.41

7. CONCLUSION

In this research, the industry dynamic analysis and ratio analysis are used to demonstrate the financial performance of Coca-Cola company impacted by COVID-19 pandemic. For the industry dynamic analysis which includes value chain, SWOT, genetic strategies and Porter's five forces, these factors could interpret the basic strategies used by Coca-Cola and the position of Coca-Cola in the whole market during the pandemic. It could be applied to set new more effective strategies based on present weakness and strengths of Coca-Cola by managers of company. The ratio analysis and DuPont analysis can be combined to illustrate profitability, liquidity and solvency of Coca-Cola's financial performance. During the year of 2018 to 2020, the overall financial performance trend is decreasing, however as the COVID-19 is an unpredictable accident, the not such suitable investment and capital allocation had been implemented. In the long-term perspective, Coca-Cola company has ability to improve the situation and stimulate corporate development in the future.

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