



# Strategy and Financial Statement Analysis of the Coca-Cola Company

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**Abstract.** As the global epidemic situation changes, global production and economic conditions gradually change and rebound. The overall strategy and economic situation of companies in the beverage industry is becoming more transparent with public disclosure, and the study of their financial statements and other publicly disclosed information is useful for external information users to understand the specific situation and make investment and decision-making decisions. Coca-Cola, as a giant in the industry, is very representative, and its study is a good indicator of the current state of the industry, which can be used as an analogy to the current and future state of other companies. This article provides further insight into the overall financial situation and corporate strategy of The Coca-Cola Company based on the study and analysis of its financial statements and public disclosures from 2018 to 2021, as well as analysis and forecasting of changes to its revenues and overall strategy in light of actual current conditions (e.g., COVID-19 pandemic).

**Keywords:** Inancial Statement Analysis · Strategy Analysis · Coca-Cola · COVID-19

## 1 Introduction

From 2019 to 2020, COVID-19 caused a global epidemic. The COVID-19 global pandemic has affected various countries' economies to the same extent. With the gradual improvement of vaccines and treatments and governments' efforts, the epidemic was gradually brought under control, and the economic situation began to improve gradually. During the epidemic, different industries were affected by various factors and suffered different economic impacts. The impact on the beverage and food industries, closely related to people's lives, was relatively noticeable. According to our selection principle, Coca-Cola's huge scale and perfect system are the primary reasons for our selection. Studying The Coca-Cola Company extends the overall industry situation, from which we can map the situation and future trends of other companies in the industry.

By applying Porter's five forces model and value chain model to study the overall corporate policies and strategies of The Coca-Cola Company, we calculate the profitability ratio, efficiency ratio, liquidity ratio, and The solvency ratio, and other publicly disclosed information are very useful to understand the overall financial situation and corporate strategy and to forecast the future situation and strategy by combining the current situation with the facts, to map the future situation and trend of the industry.

## 2 Industry and Company Business Analysis

The Coca-Cola Company and its subsidiaries, while having a complete and diverse product line, continue to focus on soft drinks as their main product. So we analyze the industry by applying the Porter's Five Forces model to derive the influencing factors from helping study and analyze Coca-Cola's strategy and tactics.

### 2.1 Industry Dynamics

#### 2.1.1 Third Level Heading

Coca cola occupies large market shares, if the inflation is not considered, Coca cola almost meet the minimum efficient scale in producing some products, such as coke. The barriers to new entry are very high in the industry. For those new entries, they cannot have large market shares at the very beginning, the average cost of unit should not be as low as Coke's. There should be a long time before the average cost reducing. Customer switching cost in this industry is very low. For the capital requirements, Coca cola already has advanced manufacturing equipment and factories in many countries. The fixed cost is not a big issue for coca cola; only those variable costs such as the bottles and syrup will increases with the amount of sales.

#### 2.1.2 Bargaining Power of Buyers

In the current beverage industry, consumers are buying standardized beverage products. Consumers have many choices. They can choose to buy Coca-Cola or other types of beverages. Consumers can purchase other beverages if a beverage is discontinued or withdrawn from the market. Therefore, when the beverages are of the same quality, consumers will prefer the less expensive ones. Meanwhile, supermarkets like Carrefour and Wal-Mart have relatively high entrance fees and high quality requirements for beverages in the retail sector. So the bargaining power is very high.

#### 2.1.3 Bargaining Power of Suppliers & Threats of Substitutes

Bargaining power of suppliers & threats of substitutes: There are many brands in the beverage industry, and the competition is fierce. Consumers have multiple choices, which means many substitutes for products in the beverage industry. As far as substitutes are concerned, there are two views: 1. One part of the view is that there are no substitutes at all because the unique taste, texture, and smell of colas, as well as the unique formula, are why they cannot exist as substitutes. 2. The other part of the view is that there are many substitutes for colas and the purpose of beverages is nothing but to solve physical needs: thirst, cure low mood, etc. So tea, wine, milk, and even coffee are all fine; therefore, tea, wine, milk and even coffee can be used as substitutes.

As far as the bargaining power of suppliers is concerned, let us take the Chinese region as an example. There are many raw material suppliers in the beverage industry in the Chinese region, and the number of large companies is not small. There will not be a concentration of suppliers, which will raise the price of raw materials.

However, with the impact of COVID-19, it is predicted that the raw material market may be affected in the future. Moreover, in the beverage industry, when raw materials are more important, it will affect production and sales and will reduce profits. In addition, plastic bottles used for packaging sales, a light weight and high-capacity product, are used centrally by many suppliers, so plastic bottle suppliers also have bargaining power. Therefore, as a supplier, Coca-Cola's pricing power is low. This is why cost advantage is important in this industry. Let's take the example of Coca-Cola. In its earnings release for the first quarter of 2022, it was noted that Coca-Cola encountered potential risks of supply chain disruptions and raw material shortages due to the global pandemic. If you ignore the impact of the pandemic, Coca-Cola's bargaining power is very high. For example, Coca-Cola has a high demand for syrup ingredients, and ingredient suppliers would be inclined to work with Coca-Cola because of the substantial profits. In some areas (syrups and containers), the beverage industry has a low concentration of suppliers, so Coca-Cola's bargaining power is strong.

#### **2.1.4 Industry Rivalry**

It is known that beverages are dependent on market conditions and sales from a very early stage. According to the Global Food and Beverages Performance Report 2019- 2021, The Coca-Cola Company performed at \$343, ranking only eighth. While the top five are PepsiCo, Nestle, JBS, Budweiser, and Tyson Foods. Among them, PepsiCo ranked first. PepsiCo and Nestle, two beverage companies, surpassed Coca-Cola. For Coca-Cola, it was PepsiCo and Nestle that had powerful competition. PepsiCo and Coca-Cola have particularly very identical product lines, and the star product of both companies - Coke - is particularly popular and is the highest selling of the era.

Moreover, in this industry, price competition is fierce. Coca-Cola helps reduce costs and prices to win market share. The beverage industry, particularly Coca-Cola, is not growing as fast as the high-tech industry. In terms of diversity of rivals, Coca-Cola's biggest competitor in "Coke" is PepsiCo, which is very competitive. However, these two companies have a large range, and they operate in various products, which reduces competition in the industry to some extent.

## **2.2 SWOT Analysis (for Coca-Cola)**

### **2.2.1 Strengths**

Company level:

- 1) Coca-Cola has a long history and the company's branding is deep. The company's culture can adapt to the modern era of fragmentation and respond well to international cultures' diversity.
- 2) Good brand image and high visibility. It is the supplier of many important competitions.
- 3) It is the "leader" in the beverage market and has a large sales volume.

Products level:

- 1) Excellent product quality, with good quality customer voice.
- 2) The products are very innovative and new products are being introduced all the time. For example: Ginger Coca-Cola, Fresca Mixed Filled Cocktails.

### 2.2.2 Weaknesses

Company level:

- 1) The Coca-Cola Company has a huge product line, with six major product lines and 160 beverage brands. This shows that the product line is too large and not easy to manage.
- 2) Coca-Cola is mired in a research scandal. “Coca-Cola accused of manipulating scientific research to reduce negative public perceptions of sugary drinks” from Baidu News, August 2020.

Products level:

- 1) Coca-Cola generally contains 10% sugar, which we can see from its ingredient list. Excessive intake of sugar is one of the causes of obesity. And when Coca-Cola was invented in 1885, it also contained cocaine ingredients.
- 2) Consumers who buy Coca-Cola are concentrated in young people, other age groups are not the main consumers.

### 2.2.3 Opportunities

Sponsors and suppliers of large events, in favor of better promotion of their products and reinforcement of brand image. In different regions, there are different cultures, and product promotion and packaging can be done according to the culture. Different sales policies for different sales regions. Bring opportunities for product sales.

### 2.2.4 Threats

Coca-Cola faces challenges in the current market due to market-driven changes, regulatory changes and socio-economic changes [1]. In recent years, people have become more health-conscious. Coca-Cola, which has an “unhealthy” tag, will be affected. And with modern online sales methods and more new beverage companies entering the market, Coca-Cola’s sales are likely affected [2].

## 2.3 Value Chain Analysis

Coca cola is “a global business that operates on a local scale”. Coca cola is based on America; however, they focus on the difference of geography. Coca cola choose the people who knows the local market well as managers; they do very detailed market research to know preference of target audience in deferent areas. Coca cola has advanced

equipment to produce high quantity and quality products. Coca cola has strength of supply chain, which has great help of high-efficient production. The warehouse is very important for Coca cola, and Coca cola built many warehouses globally to make sure the inventory can be stored safely and transferred to customers timely.

## 2.4 Main Business

Coca-Cola's main businesses are beverages, such as carbonated drinks and juices, syrups and bottling operations. Coca-Cola's main product business is the sale of high sugar content beverage concentrates. For all beverages on the market, 99.5% of sugar and water are co-existing sugars, while the 0.5% formula uniqueness is the key. The sale of syrup concentrates, one of Coca-Cola's main businesses, is the key to Coca-Cola's undefeated position in the market. In the past, due to the rapid growth of this industry, Coca-Cola only needed to maintain a good market share and the company only needed to build its brand image, ensure product quality and maintain its supply chain. But today, with the decline in industry growth, the company's revenue growth has slowed. It also includes effective and localized sales and promotion activities in each country and region [3].

## 3 Financial Analysis

This article will analyze Coca-Cola Company based on its financial statements for the first quarter of 2018–2021. Display equations should be flush left and numbered consecutively, with equation numbers in parentheses and flush right. First, use the equation editor to create the equation. Then, select the equation, and set the "Equation" Style. Press the tab key and type the equation number in parentheses.

To gain insight into Coca-Cola's operations, or to understand its financials, we have to start with the financial statement metrics. As far as investors in Coca-Cola's stock are concerned, they should be more interested in understanding the financial statements. This is because the stock market is efficient because they incorporate, and even predict, information about the company based on the financial accounting data provided by the company [4].

### 3.1 Investment Ratio

According to our analysis of the population of report users, we can find that most of them use financial reports to wait and see before investing or to try to understand some operations and earnings corresponding to them. In conducting the analysis, Pepsi was selected as the control group, and Coca-Cola and Pepsi were compared and analyzed together.

#### 3.1.1 Earning Per Share

Earning per share = (profit after tax and interest-preference dividend)/number of ordinary (Table 1).

The larger the earnings per share, the better the profitability, the more adequate the source of dividend distribution, and the stronger the asset appreciation ability.

We can see that in fact in the earnings per share this, PepsiCo has better figures than Coca-Cola in the last three years. In its own view from Coca-Cola itself, 2021 is going to be better earnings and more profitable than 2019.

### 3.1.2 Net Assets Per Share

Net assets per share = Total shareholders' equity/Total number of equity shares (Table 2).

The higher the net assets per share, the more the shareholders own the value of assets per share; the lower the net assets per share, the less the shareholders own the value of assets. Generally, we think the higher, the better per share [5]. For its specific management regarding data, there are some views that the larger this data is, the more value it brings.

From this condition, it remains that Coca-Cola is inferior to PepsiCo.

### 3.1.3 Cash Flow Per Share

Cash flow per share: Operating cash flow per share = net cash flow from operating activities / total common share capital at the end of the year.

Coca-Cola's own secretary is better, but it still can't beat Pepsi (Table 3).

**Table 1.** Earning per share. (Unit: Yuan)

	2021	2020	2019	2018
Coca-cola	2.26	1.80	2.09	1.51
Pepsi Co	5.51	5.14	5.23	8.84

**Table 2.** Net assets per share. (Unit: Yuan)

	2021	2020	2019	2018
Coca-cola	5.32	4.49	4.43	3.98
Pepsi Co	11.60	9.75	10.63	10.30

**Table 3.** Cash flow per shar. (Unit: Yuan)

	2021	2020	2019	2018
Coca-cola	2.92	2.29	2.44	1.79
Pepsi Co	8.40	7.69	6.94	6.68

### 3.2 Operating Capacity

In this paper, we now calculate, study and analyze the business capabilities in terms of.

#### 3.2.1 Operating Cycle

Operating cycle = inventory turnover days + accounts receivable turnover days (Table 4).

Financially sustainable growth is the highest level of sales growth that a company can achieve using only internally generated funds [6]. We can always draw conclusions from this data.

A long business cycle indicates a slow turnover of capital. Therefore, based on PepsiCo's business cycle and Coca-Cola's business cycle, we can see that although Coca-Cola's business cycle has been shortened, it is still longer than PepsiCo's. This means that in terms of the speed of capital turnover, PepsiCo is still more desirable, but Coca-Cola is still actively making adjustments.

#### 3.2.2 Inventory Turnover days

Inventory turnover days =  $360/\text{inventory turnover number}$  Inventory turnover number =  $\text{main operating cost}/\text{average amount of inventory}$  Average amount of inventory =  $(\text{opening amount} + \text{closing amount})/2$  (Table 5).

Most views generally believe that the lower the number of turnover days, the faster the inventory can be realized—the shorter the time spent in inventory, the more efficient the inventory management.

We continue to see that PepsiCo has fewer days of turnover than Coca-Cola, and for Coca-Cola itself, it has the shortest cycle in its own 2021, suggesting that Coca-Cola has serious adjustments to shorten its cycle from 2019 to 2021.

**Table 4.** Operating cycle. (Unit: Day)

	2021	2020	2019	2018
Coca-cola	109.29	127.83	116.40	122.81
Pepsi Co	80.08	84.02	78.73	76.65

**Table 5.** Inventory turnover days. (Unit: Day)

	2021	2020	2019	2018
Coca-cola	78.30	89.04	79.42	82.90
Pepsi Co	41.36	42.51	38.63	37.22

**Table 6.** Inventory turnover rate. (Unit: Times)

	2021	2020	2019	2018
Coca-cola	4.06	4.04	4.53	4.34
Pepsi Co	8.70	8.47	9.32	9.67

### 3.2.3 Inventory Turnover Rate

Inventory turnover (times) = Cost of goods sold (operating)  $\div$  Average inventory  
 Average inventory = (beginning inventory + end inventory)  $\div$  2  
 Inventory turnover (days) = 360  $\div$  Inventory turnover (Table 6).

We generally believe that the higher the inventory turnover rate, the better. The higher the inventory turnover rate, the faster the inventory turnover, the stronger the inventory liquidity, and the stronger the enterprise's liquidity. We can know from these data that Coca-Cola is better than PepsiCo in this indicator.

## 4 Discussion

In the comprehensive financial analysis section, we believe that PepsiCo outperforms Coca-Cola in terms of investment metrics and operational capacity, and Coca-Cola's data shows stronger profitability than PepsiCo in 2021. From the information and hierarchical structure of the financial markets old said that this part of Coca-Cola would register higher than Pepsi [7]. Combining the data for 2019–2021, we believe that PepsiCo achieves stable operations during the outbreak and is more robust than Coca-Cola, but is less profitable than Coca-Cola in 2021.

In response to the fluctuations in the financial statements' data, we can find a very significant movement from 2019 to 2020. We trace the reasons for this and believe COVID-19 in December 2019 led to the global pandemic. In the 2020 financial statements, we can find that all the data of Coca-Cola are very, very unpromising, and we can find that Coca-Cola's capital flow is transformed slowly by COVID-19, its debt starts to become more, and its solvency becomes weaker. And in the 2021 statement, we can see that Coca-Cola wants to take measures for its own dismal sales. It wants to change its situation according to its investment strategy and wants to stimulate consumption, increase sales and promote the return of capital. On these objective bases, Coca-Cola's financial profitability will shift from average to smooth speed as it did in the 2015–2017 cycle [8].

Coca-Cola could try to continue to invest in the China region in the future, adding to a large amount of business in the region. Despite occupying the current leadership position in the beverage industry, the situation is not very optimistic for Coca-Cola now due to the increased competition in the industry plus the pressure from PepsiCo.

About the current situation of Coca-Cola, and taking into account the current market conditions and trade policies of some countries, it is partly believed that the company's business strategy and even its marketing strategy can be diffused thoroughly, with minor changes, to turn a company in a poor economic situation, even on the verge of bankruptcy,

into a safe one [9]. Therefore, we can argue that Coca-Cola's strategy can be diversified again. Some argue that the market environment can also shift the overall situation [10], and that although we cannot change the environment, we can adjust our overall strategy and internal policies in response to the market environment. Therefore, we start from the marketing situation environment in which Coca-Cola is located. Because of the comprehensive and variable nature of the overall market, the marketing strategy is then changed one to one according to the specific import policy and sales environment and to minimize transportation costs.

## 5 Conclusion

We know from Coca-Cola's significant financial reports and strategy that Coca-Cola's overall operating position is poor in 2019–2020 due to COVID-19, while financial reporting sales and revenues rebound in 2020–2021. In terms of financial strategy, The Coca-Cola Company is a parallel company with light and heavy assets, which plays a role in the future operations of The Coca-Cola Company.

However, in recent years, people have become more aware of the importance of health and the awakening of health consciousness. 0 sugar and sugar reduction have become major trends in the beverage industry. People are becoming resistant to sugar-sweetened beverages, too.

In its future business activities, Coca-Cola could try to make a change across its product line by increasing the production of sugar-reduced and sugar-free beverages and investing more in environmental budgets and investments. Coca-Cola can also build up word-of-mouth by, for example, charity projects, donations, etc. In this way to establish a positive effect, can be through the brand effect on Coca-Cola, will be more helpful to the latter business conditions.

Finally, it is also possible to customize the products and the corresponding advertising distribution according to the regional effect and the characteristics of each country's export country.

Many argue that if a company, in terms of both sales and financial strategies, is more advanced and complete compared to other companies in the industry, then this company is undoubtedly fruitful. Combining the above arguments in this paper, it can be considered that Coca-Cola is very successful and unique.

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