COFCO and Coca-Cola Company's Cooperation Business Negotiation and Business Strategy Research

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Abstract. In this report, the business strategy of COFCO and Coca-Cola company will be introduced, which helps to analyze the business negotiation of the cooperation between these two companies. Basic information, business model as well as pain point of Coca-Cola Company and COFCO will be introduced in the first place, as it gives basic background knowledge of the companies. Then COFCO and Coca-Cola's BETNA will be analyzed. Alternatives that the two companies can take if their negotiation fails are presented in detail, which have a large impact on their cooperation. In the last part, one of the most important sections of this report, the possibility of the negotiation between two companies is analyzed. As their negotiation succeeded and the cooperation between the two companies has outstanding achievement, the negotiation methods, as well as their cooperation, can be learned by other companies.

Keywords: COFCO · Coca-Cola · Business negotiation · Business strategy

1 Introduction

In December 1978, negotiations on the establishment of diplomatic relations between China and the United States were held at the Beijing Hotel. Starting from the fundamental interests of the two peoples, the leaders of the older generation of China and the United States made the historic decision to establish diplomatic relations between China and the United States. The negotiations on the establishment of diplomatic relations between China and the United States completed the handshake across the Pacific Ocean. At the same time as the negotiations on the establishment of diplomatic relations between China and the United States, another negotiation was underway in another conference room of the Beijing Hotel - the cooperation negotiation of Coca-Cola's return to China. The Coca-Cola Company became the first international brand to enter China after the reform and opening up, creating a precedent for Sino-US business cooperation. The two sides of the negotiation, the management team of COFCO and Coca-Cola Company, took

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advantage of the general trend of the era of the establishment of diplomatic relations between China and the United States. Based on the confidence and courage of both parties in the future and the continuous running-in in practice, the cooperation has been expanded and innovated continuously from initial consignment sales to joint ventures and joint ventures, and then to becoming global strategic partners.

In 2000, COFCO and The Coca-Cola Company followed the historical trend of economic globalization and the huge development potential of domestic branded consumer goods. A new bond has been established between the products of the two countries, which has set up a new bridge to promote understanding and exchanges between the people and enterprises of the two countries and has also opened a new chapter for the two sides to further deepen cooperation and achieve mutual benefit and win-win results.

2 Basic Information, Business Model, and Pain Point of Coca-Cola Company

2.1 Basic Information of Coca-Cola Company

Coca-cola company is the world's largest beverage company, which has a 48% global market share and two of the world's top three beverages (Coca-Cola and low-calorie Coca-Cola). It was founded in 1886, when John Pemberton, an American pharmacist, made a refreshing Coca-Cola. The company owns 160 types of beverages in 200 countries all over the world, including soft drinks, sports drinks, dairy drinks, fruit juices, tea, and coffee. In October 2019, Coca-Cola Company ranked fifth in the top 100 Global Brands according to Inter-brand.

In 1899, Coca-Cola's distribution network spread across the United States and went global in 1906. It entered the Chinese market for the first time in 1927. In 1948, Shanghai became the first city outside the United States to sell more than one million standard boxes per year [1]. In 1979, Coca-Cola became the first foreign consumer product to return to the Chinese mainland market. Since 1979, Coca-Cola Systems has built 46 factories in China (including one under construction in Guizhou, which would be put into operation in 2021) with more than 49,000 employees, 99% of whom are local employees [1].

After entering the 21st century, around the world, 1.7 billion consumers drink Coca-Cola products every day, with 19,400 drinks sold every second. This shows the popularity of Coca-Cola and the fact that it is very well-sold in all countries. In 2020, Coca-Cola company's annual sales volume reached 37.266 billion dollars.

2.2 Business Model of Coca-Cola Company

Since Coca-Cola Company was established, it has been best-selling for more than one hundred years. Coca-Cola has had a constant business model since it was established. Because of the well-organized business model Coca-Cola Company has, the company is very successful.

2.2.1 Selection of Channels

Coca-Cola spent lots of effort to appear in the market in the shortest time. After Coca-Cola was established in Atlanta, the company opened the market there first, then explore American and other countries, markets. To cover the market comprehensively and quickly, Coca-Cola takes the sales strategy of selling raw materials and products in parallel. After all, each can of beverage takes up space, which is extremely inconvenient when transported to different parts of the world and will increase huge transportation costs. Therefore, Coca-Cola Company builds raw material factories around the world to meet the needs of filling plants [2].

The bottlers work hard to open up the market for Coca-Cola and take the risks of market volatility and economic recession, so Coke can enjoy low risks and high profits.

2.2.2 Price Setting

Coca-Cola takes regional pricing as its pricing strategy. Coca-Cola prices according to the local economic development, the local market consumption capacity, and market conditions, but the overall principle is to enable ordinary consumers to afford the drink [2].

After Coca-Cola cooperates with COFCO and enters China's market, even against the backdrop of inflation, bottled Coca-Cola has been priced at 2.5–3 yuan (500ml) for more than 10 years, while canned Coca-Cola is priced at 2–2.5 yuan (330 ml). Coca-Cola can keep such a low price because of its highly-effective labor productivity. Coca-Cola is the largest beverage company in the world with a high degree of modernization. Its market share and production scale positively promote each other. The sheer scale of production allows Coca-Cola to reduce marginal costs, giving it an unrivaled cost advantage and ensuring a profitable product.

2.3 Coca-Cola's Pain Point

To expand the international market, Coca-Cola began to implement the franchise bottling model, first setting up a local company and the money is raised locally. Coca-Cola then supplied only the concentrate prepared in secret, and eventually, all bottling equipment, materials, and transportation and distribution were done by the local people themselves. Franchised bottling operation mode is a joint venture with a local enterprise to sign a franchised production and operation contract, which produces and sells beverage products in a specific region and collaborates with it to maintain brand development.

Coca-Cola Company entered the Chinese market in 1927 and established the first bottle and can factory in Shanghai. However, it withdrew from the Chinese market due to political reasons after the founding of new China in 1949. As a result, the Chinese market was still blank before 1978. China was the place where Coca-Cola Company wanted to sell its products, and Coca-Cola had to find a local company to cooperate with. This led to the negotiation between Coca-Cola Company and COFCO.

2.4 Basic Information of COFCO

China National Cereals, Oils and Foodstuffs (Group) Co., Ltd., founded in 1952 in Beijing, is a significant corporate group that integrates commerce, industry, finance, information, service, and scientific research in a variety of industries, including agricultural goods, food, hotels, and real estate [3].

COFCO is China's oldest and most powerful enterprise engaged in the import and export trade of agricultural products and food [4]. For decades has been the country's wheat, corn, rice, sugar, and other bulk agricultural trade leader. And then, it extends to biomass energy development, real estate development, hotel operation, financial services, and other business areas [5]. In the course of development, COFCO continues to expand extensive cooperation with global customers in the fields of agricultural raw materials, grain and oil, tomatoes, fruits and vegetables, beverages, wine industry, sugar industry, feed industry, real estate, hotels, finance, and other fields, to provide customers with value for a long time [6].

COFCO, which has been a Fortune Global 500 company since 1994, was the first Chinese company to join the list [7].

2.5 COFCO's Business Model and Operation

COFCO's history can be traced back to 1949 when its predecessor was the North China Foreign Trade Company [7]. After the founding of the People's Republic of China in 1949, the branches of North China Foreign Trade Corporation moved to Beijing one after another and formed three single national export trading companies, namely China Grain Corporation, China Oil corporation, and China Livestock Production Corporation. The three companies were set up mainly to meet the country's war needs and export agricultural products in exchange for foreign currency. In 1952, China and Sri Lanka signed the Five-year Trade Agreement on Rubber and Rice in Beijing and two contracts on rice and rubber in 1953. COFCO participated in the implementation of the "rice glue agreement" signed between China and Sri Lanka to exchange rice for rubber, thus obtaining strategic materials urgently needed for the country. In the following years, COFCO actively carried out trade with the former Soviet Union, Eastern Europe, Asia, Africa, and other countries, and earned a large amount of foreign exchange by exporting primary products such as grain, oil, and food in the way of account settlement [7].

With the development of foreign trade business, COFCO has set up several single production bases for the export of agricultural and sideline products throughout the country. Meanwhile, COFCO has also revised industry standards and supported the establishment of several processing plants for export, thus promoting the overall development of the industry [7]. By the end of the 1950s, China's domestic grain supply began to be seriously inadequate, coupled with the "three years of natural disasters" in the early 1960s, China's food problem became a major problem. Under such circumstances, the original task of exporting grain for foreign exchange was suddenly adjusted to the political task of importing grain. COFCO began to import large quantities of grain, oil, and food from Canada, Australia, France, Argentina, Mexico, and other countries to meet domestic supply. Meanwhile, COFCO signed a sugar import contract with Cuba to import a large amount of raw sugar from Cuba to alleviate the serious shortage of sugar supply in China.

1965 The company was renamed China Cereals, Oils and Foodstuffs Import and Export Corporation [7]. During this period, COFCO performed the dual duties of specialized operation and management of grain, oil, and food import and export, with more than 40 grain, oil, and food import and export branches in all provinces, municipalities, and autonomous regions. In the 1970s, COFCO established several single production bases for the export of agricultural and sideline products, and also supported the establishment of several processing plants for export. Through the above measures, COFCO has supported and developed a large number of marketable export commodities, which has not only increased the supply of export goods but also had a profound impact on the adjustment and optimization of China's agricultural and sideline products planting and breeding structure, the formation of the local economy and the improvement of Chinese people's lives [7].

2.6 COFCO's Commercial Pain Points

Before 1981, COFCO was a typical foreign trade enterprise, a single import, and export company. It relied on foreign trade monopoly rights and resource rights to survive and develop and was given the dual responsibilities of professional operation and management under the highly centralized foreign trade system.

In the late 1970s, with the liberalization of China's import and export management rights, the monopoly advantage that COFCO had before would be gradually lost. After China acceded to the WTO, China's foreign trade management system has further moved closer to the principles of the WTO. A pure foreign trade company like COFCO will not only have less business volume but also have more and more competitors. The conditions on which COFCO depends have changed. The reason for COFCO's import and export trade comes from the import and export licenses and quotas under the planned economic system. If there is no such policy, it will inevitably pose a fatal threat to COFCO. The single trade business model of COFCO Group makes the source of profit for the group relatively single, which is very risky for the group [5]. In this social environment, if COFCO wants to continue to develop, it must develop its diversified industries.

3 Acquisition Negotiations BATNA and Possibilities

3.1 Negotiations BATNA

BATNA stands for "Best Alternative to a Negotiated Agreement". A beneficial alternative that a negotiating participant could indeed take if negotiations do not succeed and a consensus could not have arrived is referred to as: An individual's BATNA, or best possible technical option, which is what an individual does if negotiations seem to be failed [8]. BATNA is a term coined by Fisher and Ury. The focus of this part is on discussing acquisition negotiations of COFCO and Coca-Cola [9]. The concept of "BATNA", has proven as an extremely important tool in the negotiation process. Generally speaking, it is considered that having an appealing BATNA enhances the bargaining ability and this

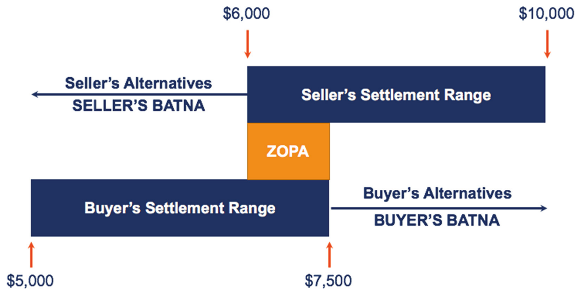

Fig. 1. Buyer's and seller's BATNA.

is also the case with COFCO. A bare minimum requirement for a contract to be mutually agreeable is that every party prefers the agreement to its alternative course of action [10]. Because of these considerations, whether or not there is a zone of probable agreement (ZOPA), which is the range in which any acceptable deal should fall, even present, and, if there is, where exactly this zone is present is determined by the attractiveness of every party's best available technology (BATNA) [11].

With the recognition of its importance in practice, BATNA becomes a tremendously popular acronym. The initial formulation of the BATNA concept, as well as many subsequent interpretations, can, however, be troublesome, restricting, and even misrepresentation in its application and this is why COFCO has also suffered [12].

BATNA could be applied to this acquisition negotiation situation using an example. COFCO is in desperate need of a bottling plant and is currently negotiating with COCA-COLA to purchase its plant. COFCO is interested in Coca-Cola's plant, which it is willing to sell for $10,000. COFCO hunts Craigslist for the same plant and assigns the value of $7,500 to it after determining its condition. COFCO 's best alternative to a negotiated agreement is $7,500 – if COCA-COLA does not give a price lower than $7,500, COFCO would consider its BATNA. COFCO can pay up to $7,500 for the plant, but it would prefer to pay no more than $5,000 for the plant. If COCA-COLA demands a price greater than $7,500, as depicted in the diagram above, COFCO will look for another place to do business. Coca-Cola's BATNA in this example is not provided, which is unfortunate. In the case where it can be assumed that COCA-COLA can sell its plant to someone else for $8,000, then $8,000 represents Coca-Cola's best-case scenario. An agreement will not be reached in such a situation, because COCA-COLA is only ready to sell for at least $8,000, and COFCO is just ready to buy for $7,500 maximum (Fig. 1).

Suppose Coca-Cola's BATNA deal is to sell the plant to another company, which would offer it $6,000 in exchange for the plant, then both parties will be able to reach an agreement because Coca-Cola's reservation point is $6,000 in this case. As illustrated in the preceding example, it is critical to have a BATNA in place before entering into negotiations. COCA-COLA would have had more bargaining power if COFCO hadn't used its BATNA to its advantage. Taking into consideration COFCO's BATNA of $7,000, the highest price at which COCA-COLA would be able to sell his car to COFCO is $7,000 (or $7,500).

3.2 Negotiation Possibility

After 1949, Coca-Cola completely withdrew from the Chinese market. But in the 1970s, thanks to the recommendation of COFCO, Coca-Cola was able to return to the Chinese market again. However, research has shown that there is more than one company that wants to cooperate with Coca-Cola, so why Coca-Cola chooses to cooperate with COFCO is also an interesting topic. At the end of 2006, COFCO, Swire, and Kerry were the three bottlers of Coke in China. These three companies have their advantages, compete with each other and care about each other, but Coca-Cola benefits from it. In terms of market, the development of China's domestic market is at a good level in the global beverage market and has great potential. There is a saying in COFCO that the Great Wall, Coke, Fulinmen, and Jindi are called the Four Treasures, which is enough to see how much COFCO attaches to Coca-Cola. The cooperation between COFCO and Coke has not only contributed to stable profits but also greatly enhanced the reputation of COFCO. More importantly, Coke's advanced operation and management concepts and methods are invaluable to the entire COFCO Group. Therefore, in recent years have also achieved good achievements. On the one hand, the reason is related to the full promotion of management by COFCO, and on the other hand, the pressure from Coca-Cola Company to sign market targets. Since its establishment, COFCO Coca-Cola has continued to build three core competencies: establishing and continuously improving a strict quality system, an efficient marketing system, and a passionate cultural system, allowing itself to maintain an advantage in the competition and accelerating its vision of becoming a world-class bottling group. As one of the fastest-growing Coca-Cola bottling groups in the world, COFCO Coca-Cola has always maintained its annual sales growth as the No.1 Coca-Cola bottling group in China. In just ten years since its establishment, it has successfully jumped into and remains among the top 10 Coca-Cola bottling groups in the world.. At present, China is the third-largest market for Coca-Cola in the world, and they are also expressing their attention to the Chinese market with practical actions. Coca-Cola Chairman and CEO Mu Taikang said that Coca-Cola's business in China has been growing at a double-digit rate in the past five years. The opening of the new base in Xinjiang shows Coca-Cola's confidence in the Chinese market. Coca-Cola plans to invest US$2 billion directly in China in the next three years, exceeding the total investment of US$1.6 billion in the past 30 years.

4 Conclusion

To sum up, this report mainly discusses the business negotiation regarding the cooperation of COFCO and Coca-Cola Company with background information of these two companies. The negotiation was successful, which can be proved by the high sales and good fame of Coca-Cola in China. The two companies have well cooperated until now and created a lot of wealth for both two companies and society. There is no doubt that their cooperation can be learned by other companies, and this report gives a detailed analysis of the business negotiation, to provide a reference for companies facing similar situations to negotiate properly and maximize the value of the enterprises.

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