CASE The Fizz Biz: Coca-Cola

Sailin' 'round the world in a dirty gondola.
Oh, to be back in the land of Coca-Cola!
—**Bob Dylan,** "When I Paint My Masterpiece"

Although Dylan's "land of Coca-Cola" is the United States, more than 75 percent of Coca-Cola's (Coke's) sales are elsewhere.[1] Coca-Cola's brand is the world's most recognized; thus other companies, such as Murjani International for clothing, have paid Coca-Cola licensing fees for use of the logo on their products. The company describes itself as a manufacturer, distributor, and marketer of nonalcoholic drinks. Despite the popularity of the Coca-Cola name, you probably can name few of the more than 400 brand names the company uses globally within its five drink segments: juice drinks, energy drinks, water, soft drinks, and sports drinks. Here are just a few you might not recognize: Bonaqua Bonactive (Hong Kong), Novida (Kenya), Far Coast (Singapore), Mother (Australia), Multon (Russia), and Nanairo Acha (Japan).

A LITTLE HISTORY

Coca-Cola originated as a soda fountain drink in 1886, began bottling in 1894, commenced soda fountain sales in Canada and Mexico in 1897, and initiated its first foreign bottling plant in Panama in 1906. Coke continued to expand internationally during the 1920s and 1930s, even opening a foreign department in 1926. But its big international boost came during World War II. Recognizing that the war would bring a shortage of sugar, one of Coke's essential ingredients, its CEO announced on national radio that the company would ensure that all U.S. military personnel anywhere in the world could buy Coca-Cola. His propaganda message worked. Not only did Coca-Cola get all the sugar it wanted, even though U.S. households seldom found sugar in the grocery stores, it also got permission to build 64 bottling plants around the world during the war.

When the war ended, Coca-Cola was known almost everywhere, and returning service personnel had become loyal customers. Today, Coke's network of more than 1,000 plants serves customers in about 200 countries and operates a fleet of delivery trucks five times larger than that of UPS. It has the largest share of the soft-drink market, and more than 16,000 Coca-Cola beverages are consumed worldwide *every second.*

COLLABORATIVE ARRANGEMENTS

Suppliers

Although its product offerings and shrewd marketing are pillars of Coke's success, the company could not have reached its present position alone. Coke buys from over 84,000 suppliers, and it needs help in almost every aspect of its operations. For instance, in 1996, it formed a three-way joint venture for a facility in Kyrgyzstan. The joint venture hired a Turkish turnkey operator (Fintraco Insaat ve Taahhut), which used 400 trucks just to carry supplies from Turkey to build the plant.

In another example, Coca-Cola has paid to have a multipurpose exhibition and entertainment venue named the Coca-Cola Dome in Johannesburg, South Africa. The dome owner is the Sasol Pension Fund, which, in turn, pays Thebe Entertainment and Events a contractual fee for managing the facility. In sum, when operating both domestically and internationally, Coca-Cola uses a variety of collaborative operating forms, and it takes varying levels of ownership in operations that support its business.

The one area in which Coca-Cola maintains strict ownership control is in production of the concentrate, thus ensuring that its "secret formula" does not fall into the hands of competitors.

Franchises: Bottlers

Coca-Cola sees its bottlers worldwide as the backbone of the company. These bottlers operate under franchise agreements in which each has exclusive rights to sell within a given territory. They not only bottle Coke beverages, but they also deliver them to such outlets as grocery stores and vending machines. They put up ad displays in stores and even make sure bottles are aligned correctly on supermarket shelves. In short, they know and respond well to their local markets. By turning activities over to the franchised bottlers, Coca-Cola can concentrate its efforts on what it feels it can do best. And these efforts help the profitability of bottlers.

What's in It for Bottlers? So what do the bottlers get in return from Coca-Cola?

1. They get the results of Coca-Cola's innovation in developing new products, such as Coca-Cola Zero, and in developing ad campaigns that help sell Coca-Cola products worldwide. These have included such themes as

"Coke side of life," "It's the real thing," "Things go better with Coca-Cola," and "I'd like to teach the world to sing."

2. They benefit from Coca-Cola's strict quality control, which includes procedures for and inspection of water purification and the mixing of syrup, concentrate, and carbonation. Quality control is important in that a slipup in one bottling plant can adversely affect sales in many countries.
3. They get help in instituting work processes to increase their efficiency. Coca-Cola studies and compares bottlers, and because they are not in competition with each other, Coca-Cola shares information among them. Finally, last but not least, Coca-Cola makes the concentrate that all its bottlers must buy.

The Franchise as Big Business? Some of the franchisees are quite large and are themselves traded publicly. For example, Coca-Cola HBC is headquartered in Greece, has operating rights in 28 countries with a combined population of 550 million, and is traded on stock exchanges in Greece, the United Kingdom, Australia, and the United States. When franchise rights cover a large territory, the franchisees generally subfranchise to bottlers throughout their region.

Four of these large franchisees account for about 40 percent of Coca-Cola's worldwide sales. In each of these four, Coca-Cola has taken a significant minority ownership stake, ranging from 23 percent to 35 percent, which is sufficient to gain considerable influence in the operations.

Ownership Options

Coca-Cola's ownership abroad varies substantially. For example, within China, it wholly owns its concentrate plant but has joint ventures with various bottling plants. Coca-Cola's ownership in foreign bottling operations has become sufficiently significant that it has set up a Bottle Investment Group within the company. It has sometimes taken an equity position abroad, even a wholly owned one, to sustain production where it would like to sell. For instance, in the Philippines, Coca-Cola bought some poorly performing bottlers that might otherwise have ceased production and merged them with successful bottling operations there. Coke hopes to turn them around and then sell them. When entering the Vietnamese market, it did so with a local joint-venture bottling partner that needed Coke's financial and marketing help. After the operation became viable, Coke sold its interest.

However, the ownership dynamics sometimes go the other way. For instance, Coca-Cola had a 35 percent interest in a joint venture with the Philippines' San Miguel. When San Miguel wanted to disengage itself to concentrate on its core businesses, Coca-Cola bought the remaining 65 percent.

Further, Coca-Cola has sometimes had to settle for a joint venture when it might have preferred full ownership. One case in point is India. Coca-Cola once left the market because of the Indian government's insistence on knowing Coke's concentrate formula. To return about 15 years later, the Indian government required Coca-Cola (and PepsiCo as well) to share ownership with an Indian company. Another case in point was when Coca-Cola wished to acquire Inca Kola, the largest soft-drink brand in Peru. The family owners of Inca Kola refused to sell the whole company, and Coke settled for a half ownership.

RED COUNTRIES VERSUS BLUE COUNTRIES

Whereas the two major U.S. political parties talk about red states and blue states, the two major soft-drink competitors refer to red countries (Coca-Cola) and blue countries (Pepsi) where each has the larger market share. These are shown on Map 14.1.

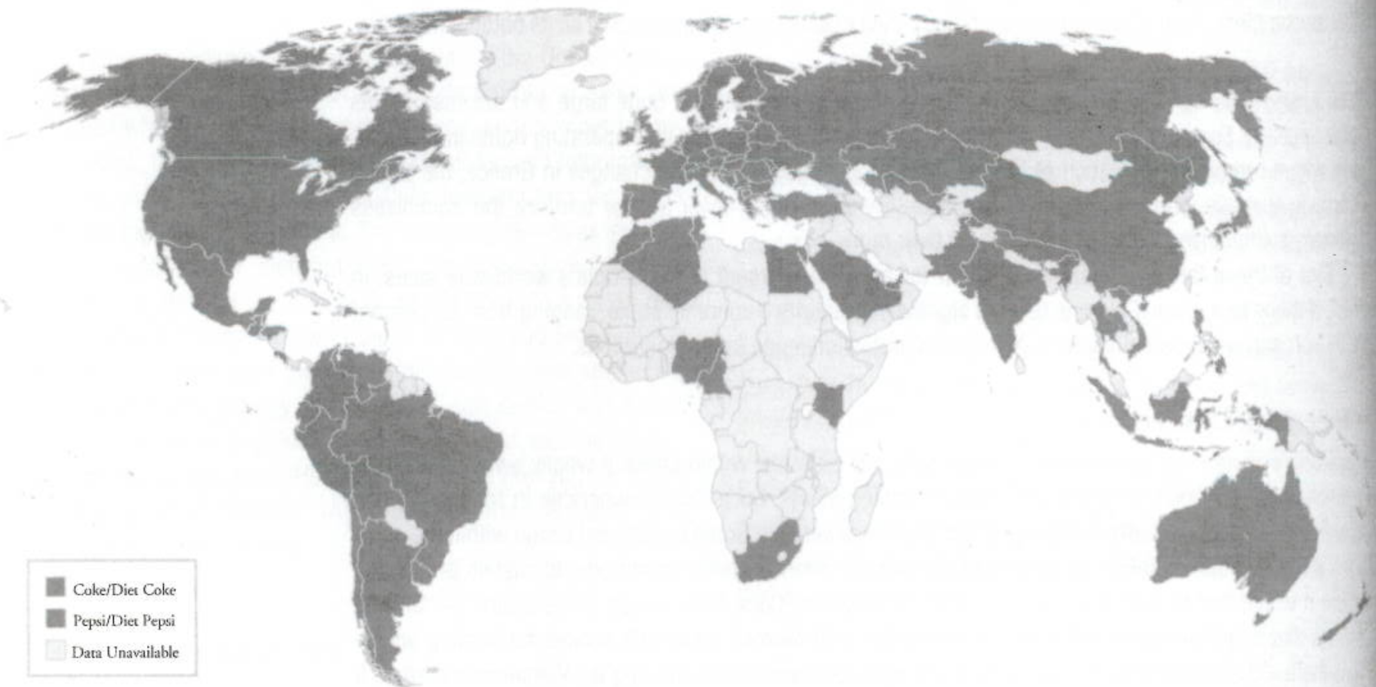
Coca-Cola not only leads PepsiCo in most foreign markets—it depends much more on foreign sales than PepsiCo does. This is positive for Coke's future inasmuch as soft-drink sales in the United States have been declining. For fiscal year 2008, Coke derived about 75 percent of its sales outside North America.

Competitive Markets and Product Lines However, Pepsi is leading Coke in the two markets with the fastest growth potential: China and India. Not only are these the two most populated countries, but their annual soft-drink per capita consumption is also low (e.g., 1.2 liters in China and 0.1 liters in India as

MAP 14.1 We'd Like to Sell the World a Cola

In the countries shown in red, Coke leads Pepsi in market share; Pepsi leads Coke in the blue countries. Of course, the two soft-drink giants compete in a lot of other places as well, but market-share data are unavailable for some areas. Note that although red countries outnumber blue countries, the world's two most populous nations—China and India—are in the blue column. Data reflect sales of Coke/Diet Coke and Pepsi/Diet Pepsi only.

Source: Adapted from "I'd Like to Sell the World a Coke," *New York Times* (May 27, 2007), at www.nytimes.com (accessed November 5, 2007). Data from Euromonitor International and the Coca-Cola Co.



compared with 31.3 liters in the United States and 20.2 liters in Brazil); thus there seems to be great potential for growth in those markets as the economies grow. This growth potential undoubtedly affected both companies' acceptance of operating terms in India that they may not have accepted elsewhere.

Coca-Cola has learned that it must widen its product line and that doing so by simply adding cherry or vanilla flavoring to Coca-Cola is not enough. If Coca-Cola does not offer a larger variety of nonalcoholic drinks, it might lose exclusive sales to large customers, such as food franchisors and airlines. Coke's bottlers have also added production and distribution of products not available from Coke, such as Cadbury Schweppes' coffee latte drink, Cinnabon.

Collaboration as Expansion Strategy Because of changes in the market for nonalcoholic drinks, Coca-Cola has been expanding its product offerings in three ways:

- Developing new products
- Acquiring companies that have complementary products
- Gaining licenses to use brand names of other companies

Coke has been doing some of this broadening on its own, some in partnership with other companies, and some through acquisitions. Its acquisitions have been widespread, including juice companies in Brazil and Russia and specialty water companies in Denmark, Germany, and the United States. It has a joint venture with Nestlé for tea products outside the United States and a joint venture with Cargill to develop a new sweetener to put into drinks. It is spending heavily on licensing for the production and sale of products using different trademarks. One of the most important license agreements is with Danone for various water brands including Sparkletts.

CRN