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THE DIVERSIFICATION OF COCA-COLA

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The Diversification of Coca-Cola: Globalization & Strategic Fit

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Abstract

The purpose of this company research is to analyze the efficiency of the global strategy employed by Coca-Cola. Some strategies that we incorporate in our evaluation include elements of differentiation, marketing, and distribution that serve Coca-Cola's purpose in various markets. Our focus on Coca-Cola stems from the firm's proven success in international operations, as it continues to be one of the most recognized beverage brands in the world. The case provides an in-depth review of how Coca-Cola utilizes each of the strategies listed above, especially in its operations in Japan.

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Introduction

In 1886, the innovation and curiosity of Dr. John S. Pemberton, an Atlanta-based pharmacist, led to the birth of the world's largest beverage company: Coca-Cola. Since then, Coca-Cola has expanded to over 500 brands in more than 200 countries. In its expansion, Coca-Cola developed four of the world's top five non-alcoholic sparkling soft drink brands: Coca-Cola, Diet Coke, Fanta and Sprite. In addition to these carbonated beverages, the brand owns several other product lines with a portfolio of greater than 3,900 beverages. These range from diet and regular sparkling beverages to still beverages, 100% fruit juices, sports and energy drinks, teas, coffees, milk and soy-based beverages. The firm's global strategy and sustainable growth gradually became a key component of its mission statement and company values.

Coca-Cola's mission statement is "to refresh the world, to inspire moments of optimism and happiness, and to create value and make a difference" (The Coca-Cola Company, 2018). The value of the firm is emphasized in its people, portfolio, partners, planet, profit, and productivity. The company is currently led by President and CEO, James Quincey. Quincey joined Coca-Cola in 1996 and rose the ranks, eventually taking charge of operations in Europe and Mexico. Coca- Cola's operating structure is divided into 6 groups: Europe, Middle East and Africa, Latin America, North America, Asia Pacific, Bottling Investments, and Corporate. As the world's largest beverage company, Coca-Cola has an enterprise value of $214,122 million and revenue of $41,863 million (GuruFocus, 2017, Fortune 500, 2017).

In 2017, Coca-Cola held 22% share of the North-American non-alcoholic beverage market and an increasing beverage sale reaching $2.75 billion, while PepsiCo, Coca Cola's competitor in North-America, only attained a 19% market share (Reuters, 2017). However, the non-alcoholic beverage market has seen a gradual decline in sales of soda drinks in the last ten years. By 2016, the sale of soda drinks declined 1.2% in the United States (Reuters, 2017). The issue with soda drinks is evident in Coca-Cola's Diet Coke product, which had a 4.3% decrease in volume in the United States and a consequent loss in market share (Fortune 500, 2017).

As sales of soda beverages remain in steady decline, Coca-Cola looks to new opportunities in the alcoholic beverage segment. One expansion was finalized in Coca-Cola's Chu-Hi, a canned alcoholic drink, that the multinational firm was testing in Japan. Subsequent analysis of Coca-Cola's recent expansion into the alcoholic beverage industry in Japan will provide an insight into the global potential of the new product line.

The Global Beverage Industry

The Global Beverage Industry can be broken down by two primary segments: non- alcoholic and alcoholic items. Historically, two large entities have dominated the non-alcoholic beverage landscape: Coca-Cola and Pepsi. Approximately 60% of the global non-alcoholic beverages is controlled by Coca-Cola and PepsiCo. Of this 60%, the split between Coca-Cola and Pepsi is about 40% to 20% with Coca-Cola controlling the majority of the market. Both companies face heightened competition from the growing market of healthier alternatives to sugary soda drinks. Such changes in the market have led for companies such as Coca-Cola to diversify their offerings in order to stay relevant.

The Non-Alcoholic Segment

In 2016, estimates for the global non-alcoholic beverage market were valued at $967.3 billion USD. The non-alcoholic beverage industry consists of four primary categories: carbonated soft-drinks, ready-to-drink tea and coffee, bottled water, and sports/energy drinks. In the U.S., the per-capita consumption of soda beverages has been trending downward. As of 2014, Coca-Cola and PepsiCo soft drink volumes have fallen consistently at an average of 1%, while Dr. Pepper Snapple Group's volumes remained flat. While Coca-Cola has attempted to promote "healthier" options through skinny cans, Diet Coke, and Coke Zero, Diet Coke sales were down a staggering 6% in the last three months of 2017. The decline of Diet Coke has been faster than that of any other Coca-Cola beverage – in part because of the dramatically shifting perceptions of what qualifies as healthy (Morris, 2018). Steady declines in carbonated soft drink volumes are largely due to health concerns, as soda's high sugar and caffeine contents cause several health issues like obesity, diabetes, osteoporosis, and tooth decay. Nonetheless, the decline in soda products does not entirely indicate the future of Coca-Cola, as said company has diversified into growing categories like juices, energy drinks, water and possibly alcohol.

The Alcoholic Segment

For thousands of years, cultures across the globe have consumed alcoholic beverages. In 2015, estimates for the global alcoholic beverage market were valued at 1,344 billion USD, and are projected to reach $1,595 billion USD by 2022 (Dwivedi). Data suggest that the global alcoholic beverages market is driven by an increase in the global young-adult demographic, coupled with those who have high disposable incomes and demand premium/super premium products. While the alcohol industry appears to be a rather lucrative business venture, the industry is consolidated and faces intense market competition. If Coca-Cola were to enter the alcohol industry, it would face stiff competition from names such as Anheuser-Busch, Bacardi, and Heineken as these firms have dominated the market for quite some time.

International Marketing

In terms of international marketing, it is important to point out the difference between international and global marketing. Coca-Cola has been recognized to act locally, promoting a “one brand strategy,” with campaigns such as “Coca-Cola is for everybody,” offering a wide variety of products to meet the needs of various consumers. In addition, Coca-Cola positions Coke as an iconic brand and lifestyle product. Through heavy advertisement and event promotions, spending up to $1 billion in media and brand building initiatives, the firm encourages people to love the brand as much as they love the product. The marketing team has come up with slogans such as “Things Go Better with Coke” or “Taste the Feeling” to make Coke a part of customers’ everyday life.

One way Coca-Cola has managed to obtain success in local markets is by focusing heavily on consumer demands. For example, in Peru, Coca-Cola was successful due to its marketing strategy to not try to present itself as “an American Company that happens to be in Peru, but as a company of Peruvians that has its headquarters in the U.S.” (Salas). The company fully immersed itself in Peruvian society not only by creating employment, but also by raising funds for relief programs for those in the area. With this strategy, Coca-Cola is able to attain and promote the trust and loyalty of the Peruvian Population.

Coca-Cola’s marketing strategy to promote local branding can also be seen in China. The company gave local managers control over advertising operations, which included everything from Chinese zodiac animals to Spring Festival couplets in its television commercials. Coca- Cola’s marketing strategy can be characterized as “glocal” as it has an identifiable global image as well as instilling local practices to embrace cultural differences.

Research & Development

Alike many other leading beverage companies, Coca-Cola has invested in extensive R&D efforts in response to changing consumer patterns. The company has spent 132.8 million on scientific research, partnerships, and health-related programs (Kell, 2017). Coca-Cola has also engaged with public health communities to tackle the global obesity epidemic.

By supporting research to generate healthier beverage options, the company has also invested in alternative products. These investments have included the launch of Fairlife, a dairy brand, which has helped Coca-Cola post a double-digit gain in the dairy category, as well as a minor acquisition in the organic juice maker, Suja, a fast-growing beverage brand that has already sold more than 40 million bottles. In addition to dairy and juice investments, Coca-Cola has expanded bottled water beverage volume. Vitamin water’s volume grew in the single digits in North-America last year and Smartwater posted a double-digit gain (Kell, 2017). The growth into the healthier beverage segment is not to say that Coca-Cola isn’t maintaining its position in the carbonated soft drink category, but that the company is actively seeking new ventures in which to improve financial performance.

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Distribution Channels

While there is no single approach for the global distribution of beverages, most producers in the beverage industry distribute their products either through Direct Store Delivery, Warehouse, or Vending/ Food Service. The Coca-Cola company is able to reach globally with a local focus because of its complex distribution process, which consists of more than 250 bottling partners. These work closely with grocery stores, restaurants, convenience stores, movie theatres and amusement parks to execute localised strategies. The company sells its products to bottling and canning operations, distributors, fountain wholesalers and some fountain retailers. These are then distributed to retail outlets, corner stores, restaurants, petrol stations and many more.

Japan's Beverage Industry

The Japanese beverage market with the combined alcoholic and non-alcoholic segment was worth $66.1 billion in 1998 (Japanscan, 2000). At that time, alcoholic beverage makers dominated the entire market, as they also made up some of the top soft drink companies. Coca- Cola was still on top of the soft drink sector with nearly 30% market share.

Today, the soft drink sector is worth around 47 billion in Japan (International Markets Bureau, 2012). The three major players are Coca-Cola with 27.6% market share, Suntory at 20.5% and Asahi Soft Drinks Co. at 12.9% (Brasor, 2015). The soft drink sector has seen an increasing unit demand YOY but a near 2% revenue decline YOY since 2010 with forecasts not looking much better (Exhibit 1). This is due to increased competition, which is driving the price per unit down, a weaker yen, and rising raw material prices, leading to increasing costs (Statista, 2018). Revenue declines are also due to the average Japanese consumer shunning less healthy products such as fizzy drinks (Lewis, 2018). Coca-Cola in 2012 recorded nearly 33.1% sales growth for its healthy, sugar free Ayataka tea (BMI Research, 2013).

While the soft drink sector is in decline globally, the alcoholic beverage sector is went up with a compound annual growth rate of 1.5% from 2006 to 2011 (International Markets Bureau, 2012). The whole market worth is upwards of 50 billion. The one segment trouncing the rest of the sector is ready to drink/ high-strength premixes, which is growing at a rate of 4.1%. The main players in this sector today include Kirin Brewery, Asahi Breweries and Suntory (Exhibit 2).

Japan's Soft Drink Market

The Japanese soft drink market is unusual in that it is dominated by still drinks (ready-to- drink teas and coffees) rather than by carbonated beverages. For example, Coca-Cola's leading products include Georgia (canned coffee), orange flavored water, and green tea (Kageyama, 2016). The Japanese market is also fad-loving with

Japanese people switching from one trendy drink to the next. Coca-Cola alone has 850 different beverages in Japan, with many being developed as unique items are meant to attract attention.

Like the soft drink market, the alcoholic beverage market is unusual compared to most of the world. While beer is still the most popular alcoholic beverage sold in Japan, capturing 57% of the market, the market has seen a huge surge in ready to drink / high strength premixes (International Markets Bureau, 2012; Exhibit 3). For example, Chu-Hi is one of the most popular canned alcoholic drinks in Japan. It is a mix of sochu (a vodka like beverage) and carbonated water (which is usually flavored). It has been popular among female drinkers for its unique flavors. The market for this specific ready to drink has seen nearly 40 percent growth since 2011 and shows no signs of slowing down (Lewis, 2018). The flavored alcoholic beverage industry hit a market volume of 2.5 billion liters in 2013, which was 4.5 times higher than it was in 2003, but is still a much smaller market than the soft drink market (Ken Research, 2013; Exhibit 4). The overall alcoholic beverage market is considered to be mature with little growth in recent years, which is due to price competition and the declining population on drinkers. The average price of a alcoholic drink was $7.20 in 2006 and in 2011 was $6.70 (International Markets Bureau, 2012).

Current Strategy

Introduction To Coke's Alcoholic Beverage in Japan

In its 132-year-history, Coca-Cola is to produce the first alcoholic drink in Japan. Made from a distilled beverage called shōchū, sparkling water, and flavoring, Chu-Hi drinks are already popular beverages in Japan. The company hopes to capitalize on the increase in popularity in Japan of Chu-Hi alcopops, as Coke is already famous for its secret Coca-Cola and red label recipes in the region.

Particularly popular with Japanese drinkers is the alcoholic beverage, Chu-Hi. The drink ranges in alcohol content from 3-8% and its sales have surged in the past five years. Using Chu- Hi as an exemplary beverage model in the region, Coke wishes to explore opportunities outside of its core areas – a strategy of diversification. However, because of the unique and special qualities of the Japanese domestic market this drink is only developed for that region.

Coca-Cola's History with Alcohol

This is not the firm's first foray into alcohol. Before company founder John Pemberton created what ultimately became the Coca Cola consumed today, he developed a coke wine, which was made with French wine and cocaine. Temperance laws at the time ultimately got him to swap out the alcohol part of the concoction. In 1977, Coca-Cola re-entered the wine business. After testing the so-called "light" and “bag-in-box” wines, Coca-Cola sold the division, called Wine Spectrum, to Seagram & Sons in 1983 for $200 million.

Is There Potential Now?

According to Euromonitor, a market research firm, global consumption of fizzy cola drinks decreased 3.1% between 2012 and 2017, with double-digit declines in the United States and Brazil. Coca-Cola, controller of 56.5% of the global market, will certainly experience a departure from its established practices, but the move to explore opportunity in the alcoholic segment may be a reflection of the way that changing consumer preferences and tastes are pushing the company into less familiar areas like premium dairy, coffee, tea and now low- alcohol flavored drinks. Sales of Coca-Cola’s fizzy drinks are in decline around the world, as young people are health conscious and cutting down on sugar consumption. Coca-Cola has branched out into water, coffee and tea to plug the shortfall. This month, the United Kingdom’s sugar tax will come into effect, but Coca-Cola has no plans of changing its sugar-laden recipe for the flagship drink because people love the taste. Smaller bottles sold at higher prices will be used to offset the impact of the soft drinks tax.

Furthermore, every country that Coca-Cola targets has unique characteristics. The Japanese business unit, in particular, “launches an average of 100 new products a year, and many times more are put to the test behind the scenes,” said Garduño. “Experimentation is almost like a day- to-day ritual here,” as per the President of the Japan Business Unit of The Coca-Cola Company. Therefore, even if the alcoholic drink does not do very well in the market, one small failure in Coca-Cola’s broader portfolio of products will not dilute its image.

Future Goals and Expansion

Global Outlook

Throughout 2017, Coca-Cola’s net revenues have declined 15% to $35.4 billion. This presents a significant threat to the company in which Coca-Cola must act with more speed and independence from its primary carbonated soft drinks segment. Health transformations across the globe have compensated certain business segments for the Coca-Cola brand, which has encouraged the firm to be more entrepreneurial. Certain plans have included rejuvenating Diet Coke in North America with an updated look, new packaging and the debut of four new flavors. The company is re-energizing and modernizing Diet Coke for new generation of drinkers, while also maintaining its historic brand image. In addition, in September 2017, the company expanded its Venturing & Emerging Brands to accelerate the growth of its expanding consumer-centric portfolio.

Japan-specific Outlook

Companies wishing to stay on top of the Japanese beverage market need to be ready to make major shifts in the future. Consumers in Japan are focusing more on healthy soft drinks and new, trendy fad drinks with unique flavors. Unit volumes for both soft drinks and alcoholic beverages are expanding, but achieving that market share will take a lot of research. Companies wishing to keep growing their revenues even though the soft drink sectors revenues are declining, must come up with the next big product, expand their presence or diversify into new sectors.

Alternatives

Coca-Cola's way forward seems to rest on it becoming a total beverage company. Coca- Cola strategically decided to stick to its global template for expansion of market share. Perhaps, Coca-Cola could explore the possibility of forming a joint venture in Japan to rely on the local partner to provide easy access to local knowledge and experiences. This way, its risks could also be shared. Mergers and/or acquisitions would provide market entry in the fastest fashion. Although these involve high costs and risks, as well as potential poster-merger integration issues, Coca-Cola would be able to utilize acquired firms' local presence well.

Conclusion

With continual declines of soda sales, the non-alcoholic beverage industry is threatened. In response, Coca-Cola has shifted investments into a global strategy to increase market share. An expanding beverage industry in Japan has become an opportunity for foreign firms that are willing to conduct extensive market research for localized product development. Additionally, a profitable alcohol industry has pushed Coca-Cola towards a diversification strategy, specifically in Japan, where consumers value a diverse set of trendy products. The future success of Coca Cola's and its historical commitment to soda will be decided in the years to come, as the firm refocuses its strategy.

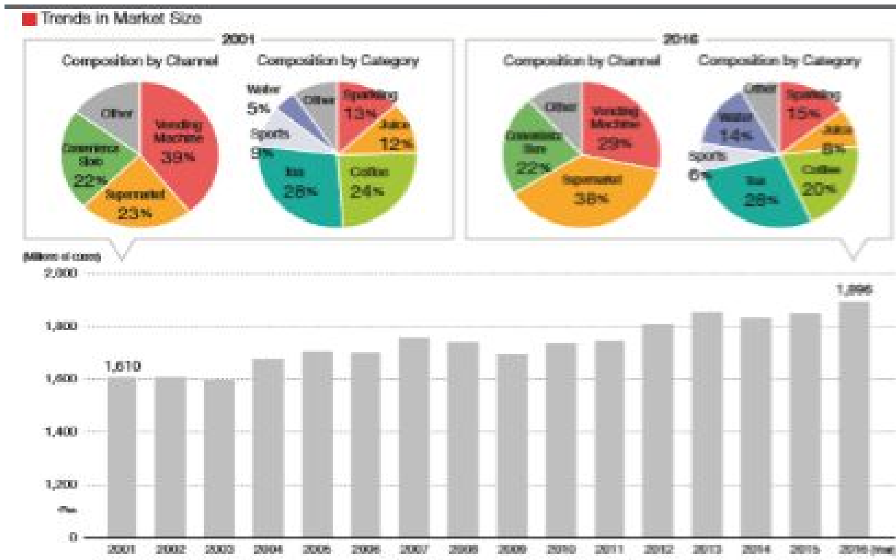

Exhibit 1 - Market Trends

Exhibit 2 - Market Volume Shares of Alcoholic Drinks Sales in Japan by Manufacturer, 2011

Subsector	Top Five Firms	Private Label	Top Companies
Beer	87.8%	0.3%	Asahi, Kirin, Suntory, Sapporo, Orion
Wine	35.2%	0.0%	Hakutsuru, Gekkeikan, Takara, Ozeki, Nihonsakari
Spirits	48.1%	0.7%	Suntory, Takara, Asahi, Sanwa, Godo
RTD/HSP	82.6%	10.4%	Suntory, Kirin, Asahi, Takara, Choya
Cider/Perry	77.7%	0.0%	Nikka, Ikon, Seijo, Shigematsu
Alcoholic Drinks	74.1%	1.9%	Asahi, Kirin, Suntory, Sapporo, Takara

Exhibit 3 – Market Sizes of Alcoholic Drinks in Japan, 2011

Subsector	Market Size 2011		Compound Annual Growth Rate (CAGR) 2006-2011	
	Value *US$ millions*	Volume *million litres*	Value	Volume
Beer	29,037	5,484	0.2%	1.9%
Wine	8,403	563	-1.5%	-1.3%
Spirits	8,363	750	-1.5%	-1.3%
RTD/HSP	4,503	726	5.3%	4.1%
Cider/Perry	11	<1	-1.9%	-2.8%
Alcoholic Drinks	50,317	7,524	0.0%	1.5%

Source: *Euromonitor, 2012.*

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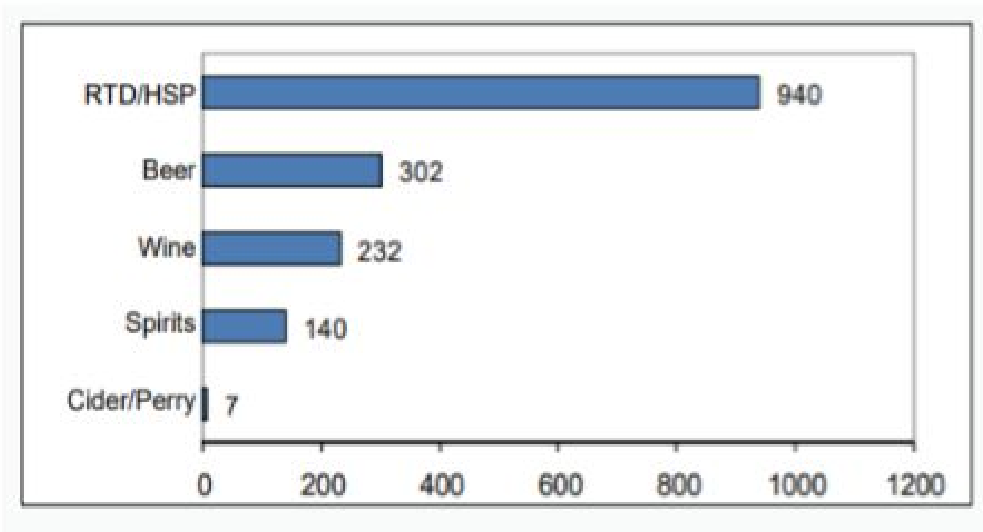
Exhibit 4 - New Launches of Alcoholic Drinks, Japan, 2007 - 2011



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