

COKE

CASE ANALYSIS

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By:

MACRO ENVIRONMENT

1. Global slowdown in GDP growth will affect volume targets.
2. Consumers ("Baby Boomers") are shifting towards beverages that are perceived as healthier, or more supportive of an active lifestyle, such as juices and juice drinks, waters, and sports drinks.
3. A law requiring warning labels about certain beverage ingredients might affect an important component of Coke.

Coke's follower strategy, and its reluctance to aggressively move into new segments desired by "Boomers", or associate the Coke brand name with product extensions, has begun to erode Coke's market share and margins.

U.S NON-ALCOHOLIC SOFT DRINK MARKET

	Market	Coke
1. Carbonated soft drinks (CSD)	77%	85%
2. Bottled water	8%	2%
3. Juices	8%	4%
4. Ready to drink (RTD) teas	4%	
		} 8%
5. Sports Drinks	3%	

Coke has been slow to make the move from declining carbonated beverages, to growing non-carbonated beverages and waters.

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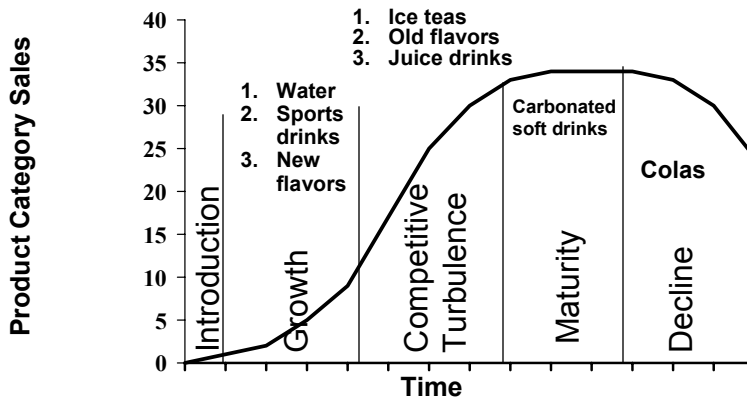
DEMAND AND DEMOGRAPHIC TRENDS: “BOOMERS” RULE

1. Long term demographic trend - rising average age, “Boomers” account for 30% of U.S. population.
 - a. Focus on nutrition and weight maintenance; and
 - b. Are affluent, not price sensitive, and believe in indulging themselves.
2. Bottled Waters:
 - a. Single serving bottled water is the second most popular refreshment beverage in the U.S.; and
 - b. Per capita annual consumption grew from 8.1 gallons in 1990, to 13.2 gallons in 2000.
3. Juices and Teas:
 - a. Category growth as consumers shift away from carbonated soft drinks; and
 - b. Improved vending distribution has contributed to category gains.

Coke must more aggressively rebalance its product portfolio as demographic trends erode market share of its core product – Coke Classic.

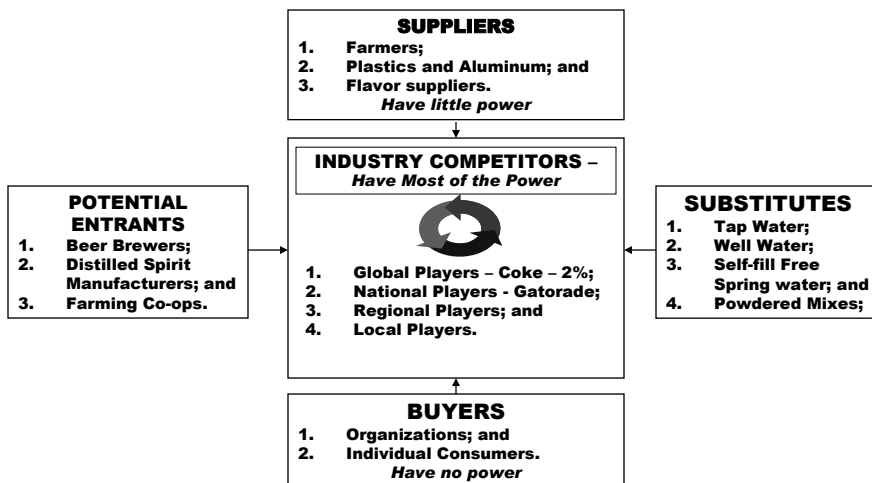
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THE PRODUCT LIFE CYCLE FOR U.S. NON-ALCOHOLIC SOFT DRINKS



Coke must continue reinventing itself, and introducing new product offerings as cola's and carbonated drinks continue to decline, and flavors mature.

SOFT DRINK MARKET - FIVE FORCE ANALYSIS



Coke currently has the most market power in both the U.S., and the world. In 2000, Coke had more than a 2% World-wide market share.

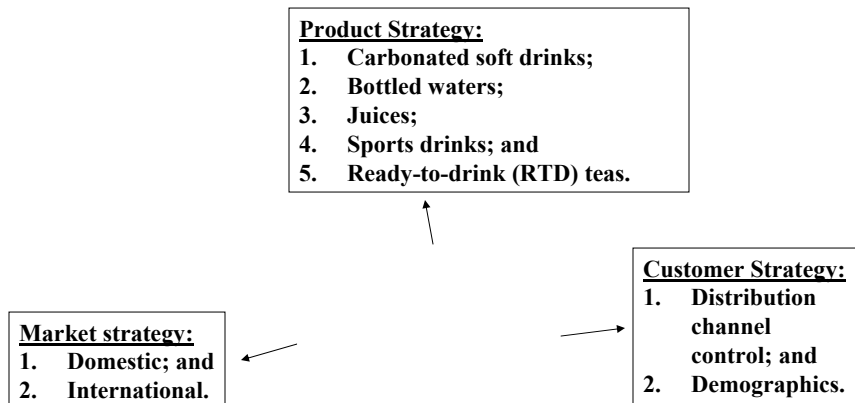
INDUSTRY TRENDS

1. New, or extended product offerings:
 - a. Branded flavored drinks – Vanilla Coke, Pepsi Twist;
 - b. New advertising techniques such as the internet used to advertise new, or extended products; and
 - c. Increasing need to advertise to protect market share from new or extended product offerings from competitors.
2. Increasingly health conscious population leaning away from high sugar, and artificially flavored drinks (colas), and more towards drinks believed to be healthy, such as waters, teas, and sports drinks.

The above trends are causing a greater erosion of market share and operating margins for Coke.

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NON-ALCOHOLIC SOFT DRINK MARKET INDUSTRY CUBE



Coke currently controls the most boxes in the world.

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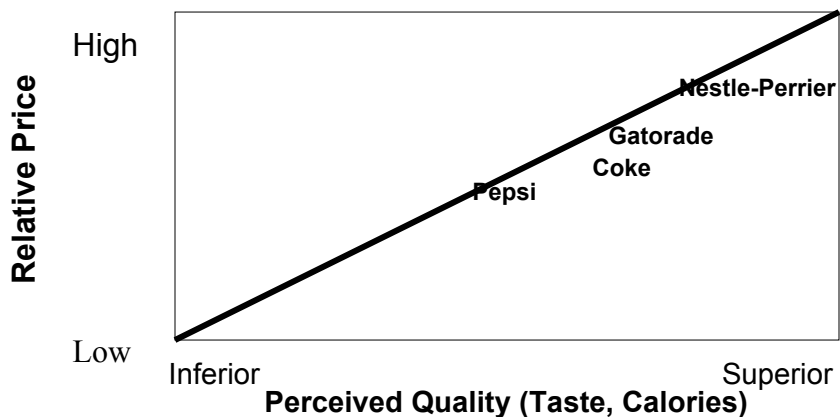
HOW THE INDUSTRY USES THE THREE STRATEGIC MODELS

1. **WAR – NOT USED IN THE INDUSTRY:**
 - a. Dominant players like Coke and Pepsi face lawsuits if they start a price war to force out competition;
 - b. All players want to maintain margins; therefore
 - c. Conscious strategizing.
2. **BIOLOGY – WHAT DESERVES TO WIN:**
 - a. Capture resources effectively – SCM strategies;
 - b. Convert resources efficiently – Optimum plants; and
 - c. Incremental strategic change – Flavor extensions (niche).
3. **GAMES AND SPORTS – IT’S THE GAME THAT COUNTS:**
 - a. Create level playing field – Distribution channels;
 - b. Neutralize unfair advantage of competitors; and
 - c. Conscious strategizing.

Coke must continually find new flavor combinations, and increase its product portfolio due to the decline of cola’s, and carbonated soft drinks. Due to its size, it is difficult for Coke to acquire competitors, or leaders in growing product segments.

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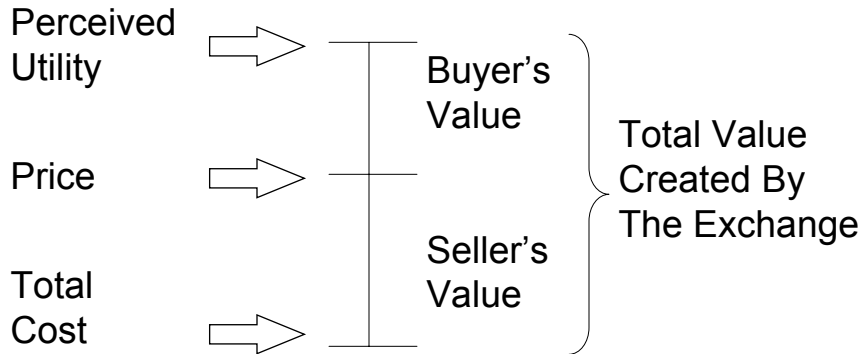
U.S. NON-ALCOHOLIC SOFT DRINK MARKET – VALUE MAP



While Coke does not have the highest price, since its costs are the lowest in the industry, it is able to create the most value, and maintain high margins.

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EXCHANGE CREATES VALUE FOR BUYERS AND SELLERS



Coke is the most successful player in the industry at creating, and capturing value with the lowest unit costs, while maintaining a high price, and convincing buyer's of the value of its products.

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U.S. NON-ALCHOLIC SOFT DRINK MARKET

Seven Sources of Competitive Advantage

	Coke	Pepsi	Gatorade	Nestle-Perrier
Superior Inputs	++	++	++	+++
Superior Technology	+++	+++	++	+
Superior Operations	+++	+++	++	+
Superior Offering	++	+++	+	++
Superior Access	+++	+++	++	+
Superior Segments	++	++	++	++
Superior Customer	+	++	++	++

Coke still dominates most of the Seven Sources, but it needs to expand its offerings to maintain its market dominance.

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COMPETITOR ANALYSIS

	Coke	Pepsi
Strategy	Stays with a core brand strategy and is reluctant to extend brand with flavors.	Focuses on product diversification, acquired Gatorade and Snapple from Quaker Oats.
Markets	Attempts to win over Pepsi's market share in the carbonated market, rather than expanding into new market segments.	Adjusts to the realities of each individual market segment, continually tries to dominate new segments, or sub-segments.

While Pepsi poses as the major competitor for Coke, many international as well as local brands specializing in non-carbonated drinks are eroding Coke's market share.

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INDUSTRY - S W O T

1. **Customers want new products distributed through existing and familiar channels.**
2. **Need for capacity optimization creating new alliance opportunities.**
3. **First mover advantage results in greater profits in this mature industry.**

1. **Problems with manufacturing, or distributing brand name products are quickly and severely punished.**
2. **Increasing competition from new entrants in "niche" or local markets.**
3. **Products with Global name recognition are frequently selected for boycott during anti-American campaigns.**

Coke must continue to exploit its manufacturing and Supply Chain strengths to maintain margins, and speed its new product extensions to the market.

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COKE - S W O T

1. Famous brands:
 - a. **Coke, Coca-Cola;**
 - b. **Minute Maid; and**
 - c. **Powerade.**
2. Unique formula.
3. Loyal customers.
4. Superior global manufacturing and Supply Chain.
5. Super advertisements, and a large marketing budget.

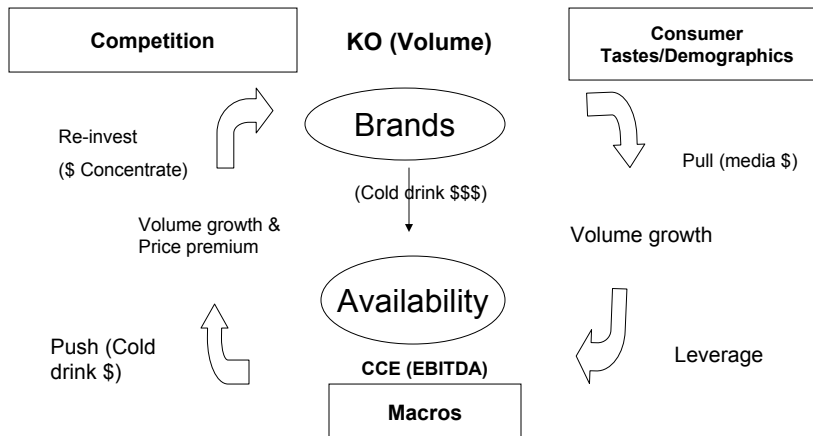
1. Susceptibility to cannibalization.
2. Reluctance to extend Coke brand name to new products, or product flavors.
3. Research and development into new products, or product extensions.
4. Declining growth of core product (Coca-Cola) and core segment (Carbonated Soft Drinks).

Coke must more aggressively use its brand name with new, and extended products to recapture market share, and exploit manufacturing and Supply Chain strengths.

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COCA-COLA BUSINESS MODEL

Source: Morgan Stanley - November 1, 2001 "Coke: Will Life Taste As Good Outside of Colas"



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COKE STRATEGY

To connect with consumers by creating brands they love, and the capacity of our people, together with our bottling partners to find new and appealing ways to deliver those brands to thirsty people everywhere.

Coke has the infrastructure in place to dominate the world market for non-alcoholic soft drinks. However, it must leverage this infrastructure by extending, creating, or acquiring new brands in new segments much quicker than it has in the past.

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STRATEGIC SITUATION ANALYSIS

How does Coke find itself?:

1. Continually responding to actions taken by competitors, such as Pepsi with Pepsi Twist;
2. The terrain on which the competition occurs is that of a mature market that is reinventing itself by creating new product segments, and cannibalizing its own brands;
3. Most remaining large competitors are strong due to consolidation, but Coke is still relatively stronger than its competitors;
4. Coke is the most constrained company with the most limits on its options to acquire competitors; and
5. The current operating climate favors first movers over followers.

Coke must transform itself from resting on its "Brand," to becoming an aggressive innovator and first mover.

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PROBLEMS

1. Weak cola and carbonated soft drink trends;
2. Sustaining volume and profit growth:
 - a. Timely identification of growth opportunities, before they are exploited by competitors;
 - b. Timely identification of sources of margin erosion;
 - c. Little premium for its Minute Maid juices over weaker brands;
 - d. Excessive marketing campaigns to support products in decline;
3. Global bottling partners are suffering from low returns;
4. Potential permanent loss of market premiums enjoyed during the 90's for its core products.

Because of Coke's size, and follower strategy, the above problems affect its profitability more than that of competitors such as Pepsi.

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PRESCRIPTIONS/ACTION PLAN

1. Increase R&D to develop new products and extend old products such as:
 - a. Cherry Coke;**
 - b. Lemon Diet Coke; and**
 - c. Vanilla Flavored Coke.**
2. Aggressively pursue new growth areas such as:
 - a. Bottled water;**
 - b. Juices, and juice drinks;**
 - c. Ready-to-drink teas, both flavored and unflavored; and**
 - d. Sports drinks, and sports/vitamin enriched waters.**
3. Share some additional profit from non-carbonated products with bottlers to insure the continued success of their operations.
4. Create more compelling advertising and look for increased opportunities for co-branded advertising.
5. Explore alliances, and joint-ventures with smaller competitors, and brewers to leverage Coke's manufacturing and Supply Chain strength, and to optimize existing operations.

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