

The Coca Cola Company: Marketing Strategy

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Introduction and Summary of the Company

Coca Cola is known as soft drink of the world (Bell, 2004). It was invest by Dr John Pemberton, who was a pharmacist in Atlanta. The drink did not have bubbles at that time and started selling at soda fountains. The first slogan for the new drink was “Delicious and refreshing”

The company has been hugely successful over the last century and has become an icon of American culture. Coca Cola is not involved in all the processes that see its products go to the hands of consumers. According to the company website, Coca Cola has entered into partnership with bottlers around the world. The website says, “*Our Company manufactures and sells concentrates, beverage bases and syrups to bottling operations, owns the brands and is responsible for consumer brand marketing initiatives. Our bottling partners manufacture, package, merchandise and distribute the final branded beverages to our customers and vending partners, who then sell our products to consumers.*”

The company posted revenues of US\$ 35 billion and net income of US\$ 11.8 billion in 2010. Total number of employees on payrolls of the company during the period was 139,600 and the company sells its products in more than 200 countries (Form 10K: The Coca Cola Company, 2010).

This report looks at various marketing techniques used by Coca Cola to become one of the best known brands of the world.

Environmental Analysis

PEST analysis is valuable while analyzing external environment where a business is conducted or where an organization is planning to start a business (Henry, 2008). This section studies the environmental factors that have an impact on operation of Coca Cola.

Political

Coca Cola is subjected to strict regulations since its products come under food category. However, few changes in law are expected to impact Coca Cola. Following are some such factors:

- The issue of negative impact of Coca Cola manufacturing plants on environment has been highlighted in many countries. Laws for environment protection and stringent regulations in this regard can impact the production process. Coca Cola can work towards minimizing this impact by improving the efficiency of its processes and reducing wastage.
- Government changes, civil unrest, military takeover and other disturbances in a country can affect sales and operations of Coca Cola in that country.
- Expansion to a new country depends on the political conditions of the area. Coke abstained from Israel for many years because it wanted to protect the Arab market, which was quite large.

Economic

Following economic variables can impact Coca Cola

- Economic downturn in a country is going to have a negative impact on sales of Coca Cola. The impact on the company would be specially huge since its products are non essential.
- Various macroeconomic factors such as inflation and labor price would impact operations of Coca Cola.
- Countries with high income per capita would have more to spend on products such as beverages.

Social

The Coca Cola Company can be impacted by following social variables

- Soft drink beverages are considered unhealthy and people are getting health conscious. This is both a threat and an opportunity for Coca Cola. While sales in traditional brands might go down, Coca Cola can introduce new products in new categories
- The company has witnessed opposition from social groups in some countries due to the environmental issues surrounding its production.
- Social and culture of a country has a huge impact on food habits of its citizens and this would impact the portfolio that Coca Cola can introduce in the country

Technological

Technology is used at every step of Coca Cola's value chain – syrup manufacturing, bottling operations and storage at retail shops. Following technological factors have an impact:

- Coca Cola's strength is marketing and new marketing and advertisement channels have a big impact on the company. Coca Cola has been quick to embrace new mediums that have developed over the years – radio, television and now internet. It is important for the company to connect to the customers through different channels.
- Different type of packaging has helped Coca Cola drive sales. Apart from the original glass bottle, the beverages are now available in plastic bottles and cans. These are easier to store and transport.
- New machines and processes impact the manufacturing operations. Adoption of new technology allows a company to manufacture more efficiently, with better quality and in greater quantity.
- The beverages need to be cooled before consumption. Therefore, consumption is limited to the places that can provide the facility of cold storage.

Customer analysis – STP analysis

This section looks at how Coca Cola views its customers and the way it designs the consumer strategy. STP (segmentation, targeting and positioning) analysis is used to study customers.

Segmentation

According to Weinstein (2004, pp4) market segmentation is the process of *portioning market into groups of potential customers with similar needs and/or characteristics who are likely to exhibit similar purchase behavior*. Objective of such a process is to analyze and understand market, identify opportunities and use or develop competitive edge to capitalize on those opportunities. The Coca Cola Company segments the customers based on the following criteria

- **Geographic segmentation:** Coca Cola has segmented the worldwide market on the basis of geographies. There are various divisions created for major regions of the world and heads of each division report to the parent company. Lot of autonomy is given to each division to run the operations.
- **Place of consumption:** Coca Cola segments the market on the basis of the place of consumption of the beverage. Most of the consumption takes place on premise such as cinemas, railway station, restaurants etc, while rest of it takes place in homes.
- **Product type:** Coca Cola segments the market on the basis of the type of products bought by customers. The market is divided into Cola products and non cola products. Cola products currently provide majority of the revenues, but the proportion of non cola products is increasing.
- **Demographics:** Coca Cola segments the market on the basis of demographics. The segmentation is on the basis of age as well as income.

Targeting

Coca Cola target different segments with different ads. Primary market of Coca Cola is younger people in the age bracket 10-25 with people from 25-40 comprising of secondary market. Cola products are targeted towards people who want strong flavor, while diet cola and its variants are targeted towards the sub segment that is health conscious.

Coca Cola uses non cola beverages to target the health conscious segment of the market. Some of the products such as Sprite specifically target teens and college going youth while others such as Limca target young working population.

Positioning

Coca Cola position its products as refreshing and thirst quenching. The products are said to bring joy, as apparent from Coca Cola's latest tagline – Little drops of joy. The products are associated with having a good time with friends and family and enjoying everyday life. The products are also marketed as consistent and of high quality.

Competitive Analysis

This section discusses the strategic capabilities that Coca Cola has built over the years, and how it has helped the company in creating sustainable competitive advantages.

SWOT Analysis

SWOT analysis would give a good insight of the strategic capabilities and resources available and the way these capabilities strengthen the competitive advantage as well as allow the company to exploit new opportunities (Kotler, 1991). SWOT framework analyzes both internal factors (strengths and weaknesses) as well as external factors (opportunities and threats) that define the market environment as well as capability of a firm to respond to the market conditions. At the same time, distinction is also made between positive factors (strengths and opportunities) and negative factors (weaknesses and threats).

Strengths

The Coca Cola Company enjoys the following strengths that has seen the company become the most recognized one in today's world

- **Brand:** The Company has a very strong brand across the globe. The brand has been recognized as one of world's leading brands by various studies conducted by Interbrand, Businessweek and other experts. Apart from Coca Cola, the company owns other top beverages brands such as Fanta, Sprite and Diet Coke. The Company has spent huge amount of money over more than a century to build a brand that has a high customer

recall and is the most recognized one. It also allows the Company to go for brand extensions and introduce various types of beverages.

- **Economies of scale:** The Coca Cola Company is the largest manufacturer and marketer of non alcoholic beverages in this world. The company sells its products in more than 200 countries. The large scale of operations ensures that the company is able to invest in new markets and reap benefits when the business grows profitable there.
- **The Coca Cola System:** The whole supply chain of Coca Cola and its bottling system is a big strength for the company. It allows the company to target various markets globally and take the bottlers' help to gain knowledge about the local market. It also allows the company to expand rapidly to new markets without a big upfront investment.

Weaknesses

Though the company has been hugely successful, there are various weaknesses that need to be addressed by the company. These are:

- **Criticisms regarding health and environmental issues:** Products of the Coca Cola Company are considered to be high in calories and harmful for health. Various groups have advocated healthier drinks over carbonated ones. In 2006, the Company was involved in a controversy in India when government agencies alleged that Coca Cola contains pesticides and is dangerous for health. Such negative publicity can cause a lot of damage to the company, especially in international and growing markets.
- **Dropping sales in several countries:** In recent years, the company has witnessed zero or negative growth in various key markets. The performance of the company has been weak in North America, which is its largest market, in last few years. The company's performance has been weak in Japan, Latin America and South East Asia as well. This could prevent Coca Cola from being aggressive in marketing and prevent the company from higher growth overall.

Opportunities

- **Inorganic Growth and Acquisitions:** The Coca Cola Company has been acquiring various local beverages companies aggressively over the last decade. Also, the company

has increased its stake in major bottling operations. This has given the company more control over the entire value chain and allows it to align the goals of these bottling operations with those of the company. The company acquired other companies in almost all major markets around the world. These acquisitions gave head start to Coca Cola in the international markets and allowed the company to diversify its revenue stream.

- **Growing healthy drinks and bottled water:** The market for carbonated drinks is getting saturated in many Western countries and the trend is to move towards healthier drinks. Also, the market for bottled water is increasing fast globally. Coca Cola has developed and acquired various brands catering to these two segments. Coca Cola can use its strong brand position in carbonated water to increase its presence in other beverages category and take advantage of these growing markets.

Threats

- **Changing trends:** In carbonated drinks, Pepsico is the only real competitor of Coca Cola. But the trend is to move towards healthier drinks and there is a big threat of substitution facing Coca Cola. Possible substitutes include coffee, tea, milk, juices and energy drinks. The company has already taken steps to address this issue by launching products in the category of healthy drinks.
- **Dependence on third party bottling partners:** The Coca Cola system of bottling partners, which is a strength for the company, is potentially a threat as well. The company does not have the ownership in most of the bottling operations and makes money by selling syrup to these bottling companies. The interest of The Coca Cola Company can be different from the bottling companies as each of them try to maximize their profits. The major dependence on independent third party vendors is a major risk to the company. This threat is being addressed by vertical integration as well as entering into long term partnerships with the bottling companies.
- **Competition:** Pepsico competes fiercely with Coca Cola in most cannot let down its guard.

Porter's Five Force Analysis

This analysis would give us a good idea of the competitive environment that the company operates in (Porter, 2008). The following factors define the competitive landscape for Coca Cola

Competition

The largest competitor for Coca Cola is Pepsi Co. They compete in almost all the markets worldwide. Coca Cola has higher sales worldwide, though Pepsi Co dominates the US market. There are other players in various beverages category, but none of them as large as Coca Cola or Pepsi Co. The new competition in the industry is to increase the product portfolio and introduce new variants of carbonated drinks and non-carbonated drinks.

Most of the strengths and weaknesses of Pepsico are similar to those of Coca Cola. Pepsico enjoys good brand value as well as economies of scale. At the same time, it also has come under criticism for health and environmental issues. While Coca Cola operates almost exclusively in beverages segment, Pepsico derive a big share of total revenues from non-beverages category such as chips and oats. This can potentially provide opportunities to Pepsico to take advantages of synergy among various products. While Coca Cola is enjoyed by people from various age groups, Pepsico mainly targets young people.

Threat of new Entrants

Threat of new entrants is very low in this industry and the following factors are responsible:

- **Brand name:** It has taken these companies decades to build their brand and it's not easy for a new company to emulate that.
- **Distribution channel:** The two existing companies have wide distribution channel across the world and it's difficult to match up to that.
- **Huge initial investment:** The high cost of setting up manufacturing plants, transportation channel and distribution channel is a big barrier for new entrants.
- **Economies of scale:** Both the existing companies enjoy large economies of scale that help in keeping the costs down. A new entrant would not be able to match the cost of the biggies and would be forced out of the business.

Threat of substitute products

The threat of substitution is high for soft drink industry with products like bottled water, juices, tea and coffee readily available. To take care of this, The Coca Cola Company has increased its presence in these sectors as well. For people who take soft drinks for its caffeine, tea and coffee can be easy substitutes. In some cases, alcoholic beverages such as beer can be a substitute as well. It costs nothing for a customer to substitute a soft drink with another drink and hence there is a high threat of substitution. Many people are moving towards healthier drinks and substituting soft drinks with juices etc.

Supplier power

Supplier power is low in case of Coca Cola. Following are the suppliers for the company:

- Raw materials such as sugar and water are standard and the suppliers can be easily replaced without any problems.
- Bottling equipment manufacturers are suppliers for Coca Cola since the company owns stake in many bottling units. These equipments can be supplied by many companies and hence they have low bargaining power.
- Other factors such as labor, power etc would not be a problem for the company.

For all the inputs, Coca Cola has higher bargaining power since it enjoys economies of scale and orders in huge quantities from the suppliers.

Buyer Power

In case of The Coca Cola Company, the bottling units are the buyers since the company sells the syrup to them and rest of the activities are undertaken by them independently. But the company owns many of the bottling plants and in such a case, buyers are the retail outlets.

- Bottling partners have low degree of bargaining power with Coca Cola. Though the company is dependent on bottlers for selling their product to the end consumers, they can replace the bottling partners. To start the business, the bottling company has to invest a lot and this creates a lock in for them, reducing their power.

- The power of mass retailers is moderate. On one hand, the brand of Coca Cola is very strong and the retailers have to store the product to satisfy the customers. On the other hand, the retailers can switch to other drinks without any cost and stop storing the products of Coca Cola.

Strategic approach and competitive advantages

The Coca Cola Company is known for its marketing expertise and the company has always followed a great marketing strategy that is responsible for bringing the success to the company for over a century. The biggest strength of Coca Cola is its brand. It has taken a lot of effort and good strategy to create the widely known brand. Apart from this, there are various strategies that Coca Cola has followed over the years in order to achieve competitive advantage using its strategic capabilities. These strategies include:

- **Marketing and branding strategy:** Healey (2008) defines a brand as a promise of satisfaction and emphasis that good branding reinforces reputation, generates loyalty and assure quality. Few companies in this world have developed a brand as strong as Coca Cola. The company has used its marketing resources to create a brand that is widely known and has become the biggest competitive advantage for the company. Coca Cola has been successful in creating brand loyalty among its consumers. This is a result of sustained marketing efforts starting from early 20th century. Coca Cola has adopted innovating marketing techniques right from the times of Candler and Robert Woodruff. Apart from usual advertising through bill boards and newspapers, Coca Cola focused on organizations, universities and colleges and this increased sales while promoting the brand name.
- **Coca Cola's glocal strategy:** Coca Cola has used its organizational capability to adopt a glocal strategy Gay et.al. (2007) – using a mix of central and local marketing functions in order to achieve maximum marketing and distribution effectiveness. Using this, Coca Cola maintains the strong global brand while introducing the local elements in the marketing to make sure that the product image is in harmony with the local culture.

- **New Product Introductions:** Coca Cola follows out to in approach while developing new products. Coca Cola has always preferred taking note of customer preferences and designing its products according to them, instead of taking an internal approach – the process of taking stock of internal assets and expertise and using them to produce something that customers would buy. Based on these, the company either introduces a new product or acquires a company producing the suitable product. This is essential to survive in the changing market and to change the product portfolio according to customer requirements.

Channel analysis

This section looks at the communication and distribution strategy of Coca Cola.

Communication – Innovative advertising

The company has used every medium available for advertisement and has been on the edge of technology for it. Use of radio has been one of the oldest medium of advertising and with the advent of television; the company became one of the first major advertisers through the medium.

Coca Cola always presents itself as a pleasurable and refreshing drink. The Company has successfully launched many famous campaigns such as “The Coke adds life” and “Have a coke and smile” in 1970s; “can’t beat the feeling” and “Coke is it!” in 1980s; “can’t beat the real thing” in 1990s and “always life” in 2000s.

The company sponsors major sporting events around the world and hires top sportspersons to promote the brand. The company also hires top models and movie stars as their brand ambassadors. The company always portrays itself as the number one and has the best products available. With the advent of internet, the company has been advertising online to connect with the online population.

Distribution

Coca Cola has developed its distribution network all over the world. It follows two types of distribution strategy:

- Direct selling: In this method, Coca Cola supply various products to retailers. These retailers may be retail stores, restaurants, cinema halls etc. The company uses its own vehicles to deliver the products. Direct selling brings in only small part of the revenue.
- Indirect selling: Most of the revenue comes from this channel. Coca Cola gets into partnership with various distributor agencies. The company supply products to these distributors, who then make them available to the retailers.

In the traditional model, products are transferred from bottling plants to large distributors. These distributors then transport the products to retailers or smaller distributors. Small distributor node is added in case of rural areas or areas with low density population. The small distributors then supply the product to retailers. Most of the bottlers are under contract with Coca Cola. At the same time, the Company has direct contract with big retailers such as Wal-Mart.

Coca Cola Company has introduced an innovative distribution mechanism in African countries to help the local economy thrive. According to the company's report, *"Our unique distribution model allows the Coca Cola system to build relationships with small enterprises, creating economic opportunity and wealth creation at the community level in developing markets. These micro distribution businesses, commonly known as Manual Distribution Centers (MDCs), are run by local small-scale entrepreneurs who employ local workers to deliver our products to small retailers in their neighborhoods. They typically reach consumers in dense urban areas in the developing world where traditional truck delivery is not feasible."*

The creation of MDCs has been going on under the initiative led by UNDP (United Nations Development Programme). This programme calls on companies to identify the steps that can be taken to reach Millennium Development Goals (MDGs). This model ensures availability of Coca Cola's product in difficult to reach places while contributing towards development of the region.

Conclusion

Coca Cola is a truly global company with presence in multiple countries. The company's biggest competitive strength comes from the strong brand that has been developed over 125 years of consistent marketing efforts. Economies of scale and the network with suppliers and distributors also contribute to the success.

Marketing and advertising has been the most important function that has taken Coca Cola to new heights. The company has adopted innovating marketing techniques right from the times of Candler and Robert Woodruff. Apart from usual advertising through bill boards and newspapers, Coca Cola focused on organizations, universities and colleges and this increased sales while promoting the brand name.

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