

**OXFORD BROOKES UNIVERSITY**

**RESEARCH AND ANALYSIS PROJECT**

**PROJECT TITLE: Business and Financial Performance Analysis of Coca-Cola Inc.  
for the Last Three Years between 1<sup>st</sup> January 2015 and 31<sup>st</sup> December 2017**

## CONTENTS

PART 1 - PROJECT OBJECTIVES AND OVERALL RESEARCH APPROACH.....	4
1. Introduction .....	4
1.1 Research Problem .....	4
1.2 Research Questions and Report Objectives .....	5
1.3 Overall Research Approach .....	6
1.4 Research Layout .....	6
PART 2 - INFORMATION GATHERING AND ACCOUNTING / BUSINESS TECHNIQUES.....	7
2. Methods of Information Gathering.....	7
2.1 Mixed Research Approach.....	7
2.2 Data Collection.....	7
2.2.1 Qualitative Data Collection .....	8
2.2.2 Quantitative Data Collection .....	9
2.3 Data Analysis .....	9
2.3.1 Qualitative Data Analysis.....	9
2.3.2 Quantitative Data Analysis.....	9
2.4 Methodological Limitations .....	10
2.5 Research Ethics .....	10
3. Literature Review of Accounting and Business Concepts .....	10
3.1 Business Model and Theories .....	10
3.2 PESTLE Framework .....	11
3.3 SWOT Analysis .....	12
3.4 Ratio Analysis .....	13
PART 3 - RESULTS, ANALYSIS, CONCLUSIONS AND RECOMMENDATIONS.....	14
4. Analysis and Evaluation .....	14
4.1 Business Performance Analysis of Coco-Cola Inc. between 1 <sup>st</sup> January 2015 and 31 <sup>st</sup> December 2017.....	14
4.1.1 Coca-Cola Inc.'s PESTLE Analysis .....	14
4.1.2 Coca-Cola Inc.'s SWOT Analysis .....	15

4.1.3	Pepsi Co Inc.'s PESTLE Analysis.....	17
4.1.4	PepsiCo Inc.'s SWOT Analysis.....	19
4.1.5	Comparative Analysis of Pepsi Co. and Coca-Cola.....	20
4.2	Financial Performance Analysis of Coca-Cola Inc. between 1 <sup>st</sup> January 2015 and 31 <sup>st</sup> December 2017.....	21
4.2.1	Profitability Ratio Analysis .....	21
4.2.2	Liquidity Ratio Analysis.....	22
4.2.3	Solvency Ratio Analysis .....	23
4.2.4	Gearing Ratio Analysis .....	24
4.3	Financial Performance Analysis of PepsiCo between 1 <sup>st</sup> January 2015 and 31 <sup>st</sup> December 2017.....	25
4.3.1	Profitability Ratio Analysis .....	25
4.3.2	Liquidity Ratio Analysis.....	26
4.3.3	Solvency Ratio Analysis .....	27
4.3.4	Gearing Ratio Analysis .....	28
4.3.5	Comparative Analysis of Pepsi Co. and Coca-Cola.....	28
5.	CONCLUSIONS.....	35
6.	RECOMMENDATIONS.....	36
	REFERENCES.....	37
	APPENDICES.....	40
	EXTRACTS FROM FINANCIAL STATEMENTS.....	40
	SKILLS AND LEARNING STATEMENT .....	44

## **PART 1 - PROJECT OBJECTIVES AND OVERALL RESEARCH APPROACH**

### **1. Introduction**

The chapter of the research project tends to present the overall rationale behind carrying out research on one of the leading sector-specific organization in the non-alcoholic beverage industry, i.e. The Coca-Cola Company. The main reason behind selecting the Coca-Cola Company as the focus of the current research is its strong brand recognition and market-leading position. It is expected that even a minor turbulence in the non-financial business performance can result in severe fluctuations in the financial business performance of the giant soft drink manufacturer. It is necessary for the company like Coca-Cola to evaluate constantly its business performance in order to maintain the leading position. Past trends can help in predicting the future performances as well as in suggesting improvements. There is a possibility that Coca-Cola is operating overconfidently without focusing on ground realities and emerging market changes, non-financial changes (e.g. consumption trends).

#### **1.1 Research Problem**

Recently, due to rising trends associated with healthy and sugar-free drinking, the Coca-Cola Company has also encountered severe challenges in the context of the 'blame for obesity from Sugar' (Lambert, 2017). The soft drink giant has been facing great efforts in diverting the flames through the identification of other possible factors causing obesity away from Sugar. Society stakeholders have highlighted that the Coca-Cola and other companies in the non-alcoholic beverage industry are misleading consumers (Purdy, 2017). Their business and marketing campaigns have been facing severe criticisms due to its claims of non-linking sugar-sweetened beverages to obesity and associated diseases. In a similar context, the company is also facing lawsuits in accelerating the obesity epidemic. Additionally, in response to the contribution to the global obesity epidemic, there has been a significant continuous decline in the soda consumption within some international markets. According to the published statistics,

*"Total volume for carbonated soft drinks dipped 0.8% in 2016, a drop that was less severe than 2015's 1.2% tumble and 2014's 0.9% decline.... The steepest*

*volume declines were for Diet Pepsi (down 9.2%) and Diet Coke (falling 4.3%), with both losing market share last year though each still rank among the ten most popular soft drinks sold in the U.S.” (Kell, 2017)*

These diet soda sales trends are acknowledged as problematic for the Coca-Cola Company. It is therefore recognized as highly necessary to investigate the effect of such market trends on the overall business performance of the business, including financial as well as non-financial aspects. The current investigation has the aim to use the industry benchmark and competitors' business position as comparators for evaluation.

## **1.2 Research Questions and Report Objectives**

The fundamental issue guiding the current research is associated with the enquiry that whether changes in the industry reputation of the business can place simultaneous effects on the financial performance of the leading business organisation of the industry too. The critical aspect associated with the research is to identify the interrelationship between the financial and non-financial business aspects through critical evaluation of the overall business performance.

- How have the business and financial performances of Coca-Cola Inc. changed between 1 January 2015 and 31 December 2017?

The main research aim is to evaluate the business and financial performance of Coca-Cola, Inc. between 1 January 2015 and 31 December 2017. In pursuance of this research aim, a set of research objectives are developed.

- To conduct the macro-environmental factors and their impacts on the business performance of the Coca-Cola
- To carry out the situational analysis of the internal business environment and its impacts on the business performance of the Coca-Cola
- To undertake the comparative examination of Coca-Cola's non-financial business environment with the industry benchmark and Pepsi Co as comparators
- To analyse critically the Coca-Cola's financial statements between 1 January 2015 and 31 December 2017

- To undertake the comparative investigation of Coca Cola's financial business environment with the industry benchmark and Pepsi Co as comparators

### **1.3 Overall Research Approach**

The current research investigation is based on mixed approach including both the qualitative as well as quantitative information for the investigation of Coca Cola's business performance since 2015. The effectiveness of mixed research can be analysed in context of translating the findings from different secondary data resources such as published financial statements, benchmark indicators, company's annual reports, and business analysts' findings. It is important to highlight that the current investigation would not focus on primary data collection. The study would employ PESTLE framework, SWOT analysis, and Ratio Analysis as accounting and business techniques to gather the relevant business information about the Coca-Cola Company for the selected periods. In applying the selected models, limitations of these models would also be taken into account. Based on the analysed business performance, in the end of the thesis, recommendations would be made on specific course of actions needed within the Coca-Cola Company.

### **1.4 Research Layout**

The remaining part of the thesis is divided into two key sections i.e. part 2 information gathering and accounting and business techniques and part 3 results and analysis conclusions and recommendations. In part two, critical and comprehensive review of the academic literature would be carried out to represent the theoretical base (theories and models) driving the current research investigation. Secondly, research methodology chosen for the information gathering would be substantiated. In part three, secondary data collected will be used to conduct the critical analysis of the Coca Cola's overall business performance. By using the comparator for the ratios of PepsiCo and industry averages in the research investigation, would be able to highlight the critical financial and business areas requiring strong consideration from the business management.

## **PART 2 - INFORMATION GATHERING AND ACCOUNTING / BUSINESS TECHNIQUES**

### **2. Methods of Information Gathering**

Research methodology has contributed vitally in identifying what type of data is collected to seek the answer to the research question (Creswell, 2014) related with the changes occurring in the business and financial performances of Coca-Cola Inc and for the successful accomplishment of the research aims and objectives. It further highlights how the needed data type, in order to reach towards an appropriate conclusion, was collected and analysed.

#### **2.1 Mixed Research Approach**

Due to the focus of the current investigation on the qualitative as well as quantitative findings related to the performance of Coca-Cola Inc., mixed research was identified as feasible. With the help of quantitative component of a mixed approach, statistical numerical findings associated with the financial performance were gathered (Creswell & Clark, 2011). On the other side, the qualitative component helped in collecting the experiences as well as business performance trends of the Coca-Cola Company in the textual form. The rationale behind choosing mixed approach was to pursue across referencing approach, where the qualitative and quantitative data findings are able to substantiate each other and further increase the credibility of the research results and conclusion in front of the research audience.

#### **2.2 Data Collection**

The research project was based on the secondary data collected through the university library as well as online modes, which were accessed using search engines on the Internet. The choice of using the online and off-line sources was helpful in eliminating the limitations associated with one single source, which may lead to selection biases (McKim, 2017). The integration of different sources used for gathering relevant qualitative as well as quantitative data sets for the analysis of the performance of the Coca-Cola Inc. in the last three years as well as its comparison with its biggest competitor i.e. Pepsi Co.

### 2.2.1 Qualitative Data Collection

Qualitative data included the Coca Cola's business performance, market trends, internal and external business environments, competitor's analysis, and impacts of different business and market forces. For collecting such qualitative information, online access was made to the reliable academic journals and databases. Qualitative data also include analysis of the theories and models such as PESTEL and SWOT for taking account of internal and external business environment and the underlying factors.

Besides, keyword strategy was used by using the related terminologies and searching relevant annual published reports of the Coca-Cola Company and its competitor Pepsi Co., periodicals, archival reports, officials and management interviews published online and other business reports. Search selection based on the strategy was helpful in sorting the relevant data based on the inclusion and exclusion criteria (Gentles, et al., 2016). Searching relevant qualitative data was quite challenging due availability of relevant and non-relevant data findings, which further required sorting and filtering (Bronson & Davis, 2011).

**TABLE 1: INCLUSION AND EXCLUSION CRITERIA**

Inclusion Criteria	Exclusion Criteria
Data published between January 2015 and April 2018	Data published on websites
Data published in the English language	Generalised performance data for the non-alcoholic beverage sector
Data published in authentic sources	
Data focusing on business and financial performances	

### **2.2.2 Quantitative Data Collection**

Quantitative data included the financial performance of the Coca-Cola Company and its competitor PepsiCo such as business ratios i.e. profitability ratios, liquidity ratios, solvency ratios, gearing ratio, investor ratios. In order to collect such financial information, financial statements of both the companies were downloaded and kept in the research folder (Creswell, 2014). Financial data in the raw form published in the last three years (2015 – 2017) balance sheets, income statements, cash flow statements, and statements of the equity of the companies were extracted to calculate and perform the ratio analysis. The process of collecting quantitative data was quite easy to the availability of such financial statements on the official website of these two well-known international companies in the non-alcoholic beverage sector.

### **2.3 Data Analysis**

An effective research project is incomplete without appropriate data analysis approach. For this reason, multiple data analysis methods were used to analyse the selected qualitative and quantitative information about Coca-Cola Co and PepsiCo. Both the textual as well as the graphical presentation of the findings was helpful for the effective transformation presentation of the data findings in line with the research objectives. Mixed data analysis methods were helpful in the analysis of the performance of the company in the last three years (Goel, 2015).

#### **2.3.1 Qualitative Data Analysis**

Qualitative data were analysed using descriptive analysis method to present textual and documented evidence with the help of business models i.e. PESTLE, and SWOT. The findings were presented in the critical analysis of the business findings.

#### **2.3.2 Quantitative Data Analysis**

Quantitative data were analysed using ratio analysis methods to present financial data in the graphical and chart-based presentations. Bar charts were used to present the comparative analysis of ratio. The chosen data analysis method is capable of presenting data in an understandable form (Creswell, 2014).

## **2.4 Methodological Limitations**

Like every research project, the current study was also limited in relation to the integration of up-to-date and reliable research findings (Cadle, et al., 2010). Qualitative data were analysed using the last three years data findings from the authenticated data sources such as scholarly books and journal articles. For this reason, there is a possibility that some important performance-related information published on websites is missed. However, the use of reliable and authentic data sources was helpful in increasing the strength of the investigations (Johnson, et al., 2009).

## **2.5 Research Ethics**

Since the secondary data, findings were in the project, therefore, reliability and validity of the sources as well as findings in the financial and business performance of the Coco-Cola Company and Pepsi Co. Only recent and reliable information sources were used to prevent the compromising quality of research project. Additionally, complete referencing and in-text citations were carried out to avoid plagiarism. The complete credit of data was given to the original authorship of the research.

After discussing, the data gathering methods selected for the research project focusing on the Coca-Cola Company, the next section of the chapter literature review on the accounting and business models for the collection of quantitative and qualitative information.

## **3. Literature Review of Accounting and Business Concepts**

Financial performance of for an international organisation can be categorised into the business performance as well as its accounting performance in the published company's books.

### **3.1 Business Model and Theories**

In order to investigate the effects of the changes in the business reputation associated (with the sugar-free drinking trends in the industry) on the overall business performance of Coca-Cola Company in the last three years, it was

important to carry out a complete and holistic assessment of both the micro and macro environments of the Coca-Cola Company. For this reason, PESTLE and SWOT models were used to gain a thorough understanding of the factors influencing the company's performance as well as their responses to the changing consumption patterns associated with the sugar-free drinking and obesity.

### **3.2 PESTLE Framework**

Theoretically defined, PESTLE framework is identified as one of the important business model, which is recognised across the globe for the identification of the factors shaping the outer business environment in which the organisation is operating (Johnson, et al., 2009). PESTLE business model is comprised of six key factors influencing, individually as well as collectively, the macro environment of the business including political, economic, social, technological, legal and environmental factors (Johnson, et al., 2009). The application of pestle framework is considered as important in order to identify the patterns and trends existing in the present operating environment by comparing its effect on the business operations relative to the business operations of the competitors the overall industry. PETSEL business model is critically acclaimed for its ability to highlight the business environment, as a 'system' i.e. showing that changing in one component of the business system is capable of modifying the entire business system (Cadle, et al., 2010; Perera, 2017). Academic researchers have emphasised on the effectiveness of the pestle model as the way to engage in effective environmental scanning and synthesising the collective business knowledge to understand its impact on the business performance (Collins, 2012; Shtal, et al., 2018).

Through the segregation of different elements involved in the PESTLE business model, it can be critically analysed that the changes occurring in different macroenvironmental factors can easily be traced. However, in discussing the limitations of this model, researchers have also acknowledged that no PEST analysis could be considered as all-encompassing because of the presence of several factors needed to be considered (Braun & Latham, 2014). The business model indicates that the influence of each level of government such as local and

international is necessary to be considered while examining the business trend i.e. reforms, regulations and policies e.g. government policy on sugar-free beverages and obesity control (Braun & Latham, 2014). Similarly, economic factors highlighted the upswings and down cycles occurring in the economic environment by focusing on the changes in the gross domestic product, unemployment, interest rates, inflation and consumer spending and savings associated with a specific product or industry. On the other side, changes in the social patterns and lifestyles of the consumers cannot be undermined in shaping the business environment (Cadle, et al., 2010). Moreover, ongoing changes and emergence of the new technologies used for manufacturing and delivering the products to the final customers are also considered as influencing elements. Besides, compliance with climatic change regulations to prevent the overall sustainable environment needs the company to have a sustainable business and marketing approach (Hill & Jones, 2011). Lastly, the legal aspects such as healthcare reforms, labour rights and other regulations for the consumer protection also have the power to modify ultimately the entire business system and processes associated with it (Braun & Latham, 2014).

### **3.3 SWOT Analysis**

The second business model considered for the current research project was SWOT analysis, which is recognised as vital for the examination of the internal strengths and weaknesses of an organisation, specifically in terms of opportunities and threats existing in the business environment (Braun & Latham, 2014; Johnson, et al., 2009). According to Ireland, et al., (2008), SWOT analysis is high in helping the company to identify a position from where it can reap economies of scale and take advantages of opportunities available in the market as well as an internal business while simultaneously minimising the business threats. Additionally, the theoretical model consists of four key elements, all of which are capable of helping the business in moving towards the stated goal and the planned business performance (Johnson, et al., 2009). However, without a complete understanding of any of these elements are business, is not able to sustain while achieving it's short-term as well as long-term goals in the competitive environment. Researchers have emphasised that swot analysis is highly necessary to understand the effects of internal factors including

tangible and intangible elements and human resource factors (Johnson, et al., 2009).

### **3.4 Ratio Analysis**

For the analysis of financial performance, ratio analysis is among the most used business model, capable of highlighting the profitability, liquidity, investment, and overall financial performance of the company. The strength of using the ratio analysis model can be tracked from its ability to highlight risks and returns associated with the business operations in a specific period (Hill & Jones, 2011). Ratio analysis also offers the opportunity to compare analytically the upward and downward trends in the financial and accounting measures of the company in relation to its competitors as well as overall industry's benchmark (Goel, 2015). In critically discussing the importance of ratio analysis in the process of business performance assessment, Hill & Jones, (2011) have highlighted that financial data of any company is an indicator of the substantial outcomes of the business strategy and system structure. However, not all the business investigators are able to analyse the complex and bulk of data available in the financial statements of the company in a timely manner, therefore, they use ratio analysis for gaining a general view of the company's financial position and the trends associated with this performance. On the other side, it is important to highlight that the users of the ratio analysis findings must have an understanding of how to analyse and read the financial data.

Hence, through the application of the above-mentioned choices of information gathering methods as well as the information gathered by using these methods such as PESTEL framework, SWOT analysis and ratio analysis of the Coca-Cola Company and PepsiCo are analysed in the second chapter of the research project.

## PART 3 - RESULTS, ANALYSIS, CONCLUSIONS AND RECOMMENDATIONS

### 4. Analysis and Evaluation

This part of the research project presents the findings obtained through the application of the chosen research models and theories with an ultimate aim to identify the effects of changing consumption patterns i.e. sugar-free drinking and obesity control market calls on the overall business performance of the Coca-Cola Company.

#### 4.1 Business Performance Analysis of Coco-Cola Inc. between 1<sup>st</sup> January 2015 and 31<sup>st</sup> December 2017

##### 4.1.1 Coca-Cola Inc.'s PESTLE Analysis

TABLE 2: PESTLE ANALYSIS – COCA-COLA COMPANY (2015-2017)

PESTLE Factors	Trends in Last 3 Years
Political	Influence of Brexit has started placing effects on the political relationships between the UK and other western governments both European and non-European. New trade agreements may affect business cost and international profits such as border tariffs (Coyle, 2017).
Economic	Federal and state government entities may possibly increase taxes on the production of sugar-sweetened beverages in the United States; however, no such actions are taken until now. However, individually since 2014, seven municipal or county jurisdictions have implemented such taxes (Tufts University, 2017). Although such taxes are adopted in other international markets where Coca-Cola has been operating including Germany i.e. 20% Sugar-Sweetened Beverages Tax (SSB tax) for decreasing energy consumption among the young consumers

	specifically (Schwendicke & Stolpe, 2017).
Social	Weather conditions have significant effects on the seasonal sales and business growth (Coca-Cola Inc., 2016). Health advocates and dietary guidelines are constantly indicating since 2015 that consumption of sugar-sweetened beverages may decrease due to rising public concerns related to obesity (Coca-Cola Inc., 2015, p. 11)
Technological	Innovation is necessary based on correct anticipation of customers' demand.
Legal	The use of non-nutritive sweeteners and biotechnology-derived substances in the product are capable of adversely affecting the business reputation at the national and international levels (Coca-Cola Inc., 2015, p. 12)
Environmental	Furthermore, more research and development is needed to direct the business operations associated with bolting and packaging in line with the rising environmental concerns (Coca-Cola Inc., 2017).

After gaining the macro-environmental findings associated with the last three years of Coca-Cola's business operations, the next section presents the micro-environmental business performance for the company.

#### **4.1.2 Coca-Cola Inc.'s SWOT Analysis**

Table 3: SWOT Analysis – Coca-Cola Company (2015-2017)

<p><b>Strengths</b></p> <p>Popular brands with accelerated percentage ratio of consumer acceptance(PepsiCo, 2015)</p> <p>A powerful and strong network of the bottlers and distributors in the US as well as rest of the international markets(Silzer &amp; Dowell, 2009)</p> <p>Strong marketing capabilities(Wahlen, et al., 2010)</p> <p>Powerful and influencing human resources including a talented group of dedicated associates in different markets (Coca-Cola Inc., 2017, p. 7)</p>	<p><b>Weaknesses</b></p> <p>Changes in currency fluctuations affect exchange rate and overall business operational costs in some of the geographic regions</p> <p>High-level of dependency on bottling partners, which can influence in case, the company is unable to maintain relationships with them. Issues of sugary sweetened beverage and taxes may divert their attention to other low-cost sectors such as water and non-sugary and low-soda beverages (Coca-Cola Inc., 2017, p. 13)</p> <p>In order to reflect its business as a more consumer-centric portfolio, cola-cola has cut-down jobs to accommodate the effects of sluggish growth. Cost-cutting initiatives are capable affecting the overall business performances associated with Human Resource Management (HRM) (Agence France-Presse, 2017).</p>
<p><b>Opportunities</b></p> <p>The company has the potentials to engage in joint efforts with bottlers, farmers, communities, suppliers and key</p>	<p><b>Threats</b></p> <p>Stiff competition in almost all the international markets and geographic regions</p>

<p>partners, to revive its reputation and to find out a solution for reducing sugary content and low contribution to obesity (Coca-Cola Inc., 2017, p. 11)</p>	<p>The company currently have a concentrated retail sector, which is leading to high buyer's power due to a broad list of choices available</p> <p>Competition with private-labels beverage brands (Coca-Cola Inc., 2017, p. 7)</p>
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After gaining a critical set of findings of the micro and macro environmental conditions of the Coca-Cola Co, the next section of the project discusses the business environment of its leading competitor i.e. PepsiCo for the last three years.

#### 4.1.3 Pepsi Co Inc.'s PESTLE Analysis

TABLE 4: PESTLE ANALYSIS – PEPSI CO. INC. (2015-2017)

PESTLE Factors	Trends in Last 3 Years
Political	<p>Pepsi Co is also concerned with the United Kingdom's awaiting departure from the European Union while focusing on how the United Kingdom will act together with other European Union countries subsequent to its withdrawal (Pepsi Co, 2017).</p>
Economic	<p>Pepsi Co is also facing the pressures from the US. Jurisdictions and international markets' taxes such as the single tax rate per liquid ounce imposed in the City of Seattle, Washington, graduated tax rate in the UK, and 50% flat tax rate on beverages in Saudi Arabia (Pepsi Co, 2017, p. 14)</p>

Social	Pepsi Co. has also acknowledged the rise in the consumption of its products in the warmer months. However, its material effects are not considered on the overall financial results (Pepsi Co, 2017, p. 7).
Technological	Big data is used to help the consumers in finding their product in local stores. Digital campaigns and advertising to analyse the relationship between the changing consumers” behaviours and the business results (Pepsi Co, 2017)
Legal	Law and regulations may affect the law and regulations. Colour-codedlabelling of certain food and beverage products in different jurisdictions of the US is inflecting Pepsi Co business i.e. red, yellow, and green for added sugar content in the drinks are adversely affecting business reputation (Pepsi Co, 2017, p. 14).
Environmental	<p>Regulations for packaging, disposal and recycling needs to reshape the distribution and operational business model(PepsiCo, 2016)</p> <p>Operational impacts of the health of local and international communities are also influencing the business (Pepsi Co, 2017)</p>

Subsequent to the macro-environmental findings associated with the last three years of PepsiCo’s business operations, the next section presents the micro-environmental business performance for the company.

#### 4.1.4 PepsiCo Inc.'s SWOT Analysis

Table 5: SWOT Analysis – PEPSI Co. Inc. (2015-2017)

Strengths	Weaknesses
<p>To respond to the market patterns, PepsiCo's distinctive black can Pepsi has been introduced with maximum cola taste and zero sugar (Pepsi Co, 2017, p. Performing while Transforming)</p> <p>PepsiCo is quite proud of its unmatched partnerships with the global retail and food networks</p> <p>The company has a talented design team for differentiating PepsiCo with design by connecting it with the memorable experiences of the customers had major global such as Super Bowl Li to Milan Design Week and UEFA Champions League Final (Pepsi Co, 2017, p. 4)</p> <p>New channels for growth including innovative snacks are helping the company in maintaining their reputation in the global market (Pepsi Co, 2017)</p> <p>Strong eCommerce platform for the capturing market share</p>	<p>Weak pound can adversely affect the effects of exchange rate on the business performance of the company (net revenue decreases by 5% as a result of fluctuations in the foreign exchange)(Pepsi Co, 2017, p. 67)</p>

Opportunities	Threats
<p>State-of-the-art food and beverage healthy vending initiative allows the company to expand its business portfolio</p> <p>Efforts to preserve raw materials and energy are further leading to increased business reputation.</p> <p>Global purchasing programs including fixed-price contracts and purchase orders and pricing agreements can help the business in netting-off the effects of rising business cost (SSBT) on the overall financial results (Pepsi Co, 2017).</p>	<p>Water scarcity and climate change can affect the business operations in the long-term</p> <p>The business operations are also at high-level of risks associated with the increased volatility in the economic, political and social conditions of the international markets as well as civil unrest in some markets.</p>

After undertaking the individual analysis of the: it's complicated PepsiCo with respect to the changes occurring in their macro environment after the increasing concerns towards the production of sugary beverages, the next section of the projects carry out a critical comparative analysis of the Coca-Cola's business performances in the last three years.

#### **4.1.5 Comparative Analysis of Pepsi Co. and Coca-Cola**

It can be analysed from the comparative analysis of the Coca-Cola company is in the last three years that the overall business reputation is crucially affected the changing consumption patterns and the increased influence of regulatory on the production and consumption of sugary beverages in the non-alcoholic industry in order to cut down its

impact on the obesity. The findings have revealed that the company is taking account of all the internal and external environmental factors while driving its business strategies and the overall structure of the business processes and system. This is the key reason why the business reputation and the operational aspects we are constantly increasing and improving. However, it can be seen that PepsiCo has taken certain initiatives specifically address the concerns of the public and health-related with more than the Coca-Cola Company. It can be seen that PepsiCo has been showing evidence about the low contribution of sugary beverages like Coca-Cola Company in increasing the incidence of obesity in the US and across the world; PepsiCo has reduced the sugar content in its product with the introduction of zero sugar beverages such as black can.

The next section of the chapter presents a quantitative matrix of the financial performances of Coca-Cola and its competitor PepsiCo in the through the ration analysis method.

## **4.2 Financial Performance Analysis of Coca-Cola Inc. between 1<sup>st</sup> January 2015 and 31<sup>st</sup> December 2017**

### **4.2.1 Profitability Ratio Analysis**

In the first stage, the three most prominent profitability ratios i.e. Gross Profit Margin, Net Profit Margin and Return on Capital Employed, were calculated for the Coca-Cola Inc. These ratios were helpful in identifying how much the company has earned in the last three years as well as how much such earning is related proportionally with the operational business and other business activities. Increasing profitability trend is a key indicator for the shareholders of the business, ultimately exhibiting the market position and reputation among the customers. The analysis of the GP ratios for the Coca-Cola Inc. highlighted an increasing trend from 2015 (0.41) to 2017 (0.63). In contrary, the anterior shows of the Coca-Cola in the last three years show a declining trend from 2015 (0.17) to 2017 (0.04). The significant difference in the GP and NP ratios of the company has further highlighted that the business is allocating a large amount of its GP in paying off its operational and other business expenses. In a similar context, for the sustainability of the leading position in the non-alcoholic beverage market in terms of profitability, Coca-Cola is required to maintain higher ROCE levels. The findings

revealed that ROCE of the Coca-Cola has decreased since 2015, showing that the business is not making efficient use of its capital in the earning the net profits (from 0.13 in 2015 to 0.10 in 2017)(Coca-Cola Inc., 2017; Coco-Cola Inc., 2016; Coca-Cola Inc., 2015).

**Table 6:Coca-Cola Inc. Gross Profit Margin Ratio**

Year	Gross Profit	Revenue	GP Margin
2017	22154000	35410000	0.63
2016	16772000	41863000	0.40
2015	18084000	44294000	0.41

**Table 7:Coca-Cola Inc.Net Profit Margin Ratio**

Year	Net Profit	Revenue	NP Margin
2017	1248000	35410000	0.04
2016	6527000	41863000	0.16
2015	7351000	44294000	0.17

**Table 8:Coca-Cola Inc.Return on Capital Employed**

Year	Net profit before interest and tax	Shareholders' equity	Debt Liabilities	Capital Employed	ROCE
2017	7501000	1760000	70824000	72584000	0.10
2016	8626000	1760000	64208000	65968000	0.13
2015	8728000	1760000	64442000	66202000	0.13

#### 4.2.2 Liquidity Ratio Analysis

Secondly, the Coca-Cola Company's liquidity position was measured through the calculation of the current ratio and quick ratio to identify the ability of the company to pay off its short-term debt out of the current assets (Tracy, 2012). The results of the ratios have highlighted a strong liquidity position for the Coca-Cola Inc. is the company

has been able to maintain its quick and current ratio above industry acceptable range of 1. It can be seen from the results that both the ratios have shown increasing trend since 2015. It can be seen that the Coca-Cola Inc. is not only able to pay off its current obligations from the fall of sufficient current assets but also the company has an adequate set of easily convertible to cash assets, which are highly useful in adversaries and crisis situations.

**Table 9:Coca-Cola Inc.Current Ratio**

Year	Current Assets	Current Liabilities	Current Ratio
2017	36545000	27194000	1.34
2016	34010000	26532000	1.28
2015	33395000	26929000	1.24

**Table 10:Coca-Cola Inc.Quick Ratio**

Year	Current Assets	Inventories	Current Liabilities	Quick Ratio
2017	36545000	2655000	27194000	1.25
2016	34010000	2675000	26532000	1.18
2015	33395000	2902000	26929000	1.13

#### **4.2.3 Solvency Ratio Analysis**

Furthermore, the solvency of an internationally operating business is highly necessary to examine the ability of the company to stay floating in terms of disturbances (Graham & Smart, 2011). Solvency ratio is therefore crucial for the existing shareholders as well as the potential investors to invest in the Coca-Cola Inc. Solvency ratio of the company in the last three years from 0.11 in 2015 to 0.02 in 2017. The company is not able to make income while investing its debt resources. Since the net income of the business does not provide a real picture of the company's earning in a specific period, therefore, depreciation (it is one of the largest non-cash expenses) was added back to show the real income. Likewise, debt to equity ratio of the business was also calculated to show

the proportionate distribution of the debt and equity in the total investments available. The high portion of investors' portion of the business is not recognised as suitable while the high portion of business owners is considered as highly feasible and suitable for the business improvements. The results indicate worsening solvency position of the Coca-Cola since the company has increased its debt level significantly since 2015.

**Table 11:Coca-Cola Inc.Solvency Ratio**

Year	Net Income	Depreciation	Net Income + Depreciation	Short-term Liabilities	Long Term Liabilities	Total Liabilities	SR
2017	1248000	1260000	2508000	27194000	43633000	70827000	0.02
2016	6527000	1787000	8314000	26532000	37676000	64208000	0.10
2015	7351000	1970000	9321000	26929000	37513000	64442000	0.11

**Table 12:Coca-Cola Inc.Debt/Equity Ratio**

Year	Current Liabilities	Long Term Liabilities	Total Debt	Total Equity	DER
2017	27194000	43633000	70827000	17072000	4.15
2016	26532000	37676000	64208000	23062000	2.78
2015	26929000	37513000	64442000	25554000	2.52

#### 4.2.4 Gearing Ratio Analysis

Subsequent to the measurement of profitability, liquidity and solvency ratios of the Coca-Cola Inc., it was necessary to assess the gearing ratio of the company in the past three years. The gearing ratio of the company reflects the company's financial performance as a going concern. The performance of the company is showing a declining trend due to rising debt ratio (from 0.72 in 2015 to 0.81 in 2017) and declining equity ratio (from 0.28 in 2015 to 0.19 in 2017). Rising debt levels in the current assets is a challenging situation.

**Table 13:Coca-Cola Inc.Debt Ratio**

Year	Total Debt	Total Assets	Debt Ratio
2017	70827000	87896000	0.81
2016	64208000	87270000	0.74
2015	64442000	89996000	0.72

**Table 14:Coca-Cola Inc.Equity Ratio**

Year	Total Equity	Total Assets	Equity Ratio
2017	17072000	87896000	0.19
2016	23062000	87270000	0.26
2015	25554000	89996000	0.28

### **4.3 Financial Performance Analysis of PepsiCo between 1<sup>st</sup> January 2015 and 31<sup>st</sup> December 2017**

After the analysis of the Coca-Cola Company, the similar financial performance analysis of the PepsiCo was calculated for the last three years to make a subsequently comparative analysis of the Coca-Cola Inc.

#### **4.3.1 Profitability Ratio Analysis**

Profitability ratios for the PepsiCo showed a fluctuating trend (mix of increase and decrease) in GP ratio, NP ratio and ROCE ratio. The analysis revealed that the company is focusing on maintaining its profitability in the last 3 years rather than increasing it. The maintaining approach is useful in time of crisis when the firm is facing severe pressures from the market players and stakeholders. Comparatively the year 2016 showed an improved position since 2015(Pepsi Co, 2017).

**Table 15:PepsiCo. Gross Profit Margin Ratio**

Year	Gross Profit	Revenue	GP Margin
2017	34740000	63525000	0.55
2016	34590000	62799000	0.55
2015	34325000	63056000	0.54

**Table 16:PepsiCo. Net Profit Margin Ratio**

Year	Net Profit	Revenue	NP Margin
2017	4857000	63525000	0.08
2016	6329000	62799000	0.10
2015	5452000	63056000	0.09

**Table 17:PepsiCo. Return on Capital Employed Ratio**

Year	Net profit before interest and tax	Shareholders' equity	Debt Liabilities	Capital Employed	ROCE
2017	10509000	24000	68915000	68939000	0.15
2016	9785000	24000	62395000	62419000	0.16
2015	8353000	24000	57744000	57768000	0.14

#### 4.3.2 Liquidity Ratio Analysis

On the other side, the liquidity position of the PepsiCo has increased in the past 3 years. Both the current ratio as well as quick ratio indicated that PepsiCo is able to pay off its short-term obligations due to the sufficiency of current assets along with the adequate easy to cash convertible assets. PepsiCo is also holding an above-acceptable level liquidity to help the company in attaining sustainable liquidity position(Cadle, et al., 2010).

**Table 18:PepsiCo. Current Ratio**

Year	Current Assets	Current Liabilities	Current Ratio
2017	31027000	20502000	1.51
2016	26450000	21135000	1.25

2015	23031000	17578000	1.31
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**Table 19:PepsiCo. Quick Ratio**

Year	Current Assets	Inventories	Current Liabilities	Quick Ratio
2017	31027000	2947000	20502000	1.37
2016	26450000	2723000	21135000	1.12
2015	23031000	2720000	17578000	1.16

### 4.3.3 Solvency Ratio Analysis

PepsiCo has sacrificed its solvency position in the past three years due to increase debt portion in its business. Despite, these debts are unable to make sufficient net income (real net income indicating depreciation). Both the solvency ratio and debt-to-equity ratio showed a decline in 2017 compared to 2015.

**Table 20:PepsiCo. Solvency Ratio**

Year	Net Income	Depreciation	Net Income + Depreciation	Short-term Liabilities	Long-Term Liabilities	Total Liabilities	SR
2017	4857000	2369000	7226000	20502000	48413000	68915000	0.07
2016	6329000	2368000	8697000	21135000	41260000	62395000	0.10
2015	5452000	2416000	7868000	17578000	40166000	57744000	0.09

**Table 21:PepsiCo. Debt to Equity Ratio**

Year	Current Liabilities	Long-Term Liabilities	Total Debt	Total Equity	DER
2017	20502000	48413000	68915000	11045000	6.24
2016	21135000	41260000	62395000	11246000	5.55
2015	17578000	40166000	57744000	12068000	4.78

#### 4.3.4 Gearing Ratio Analysis

Likewise, the gearing position of the PepsiCo is also not showing a satisfactory result i.e. there has been a rise in the debt ratio while a decrease in the equity ratio in the last three years between 2017-2015. PepsiCo has been accumulating debt levels, which may be explained through its varying investment initiatives in the last three years.

**Table 22:PepsiCo. Debt Ratio**

Year	Total Debt	Total Assets	Debt Ratio
2017	68915000	79804000	0.86
2016	62395000	73490000	0.85
2015	57744000	69667000	0.83

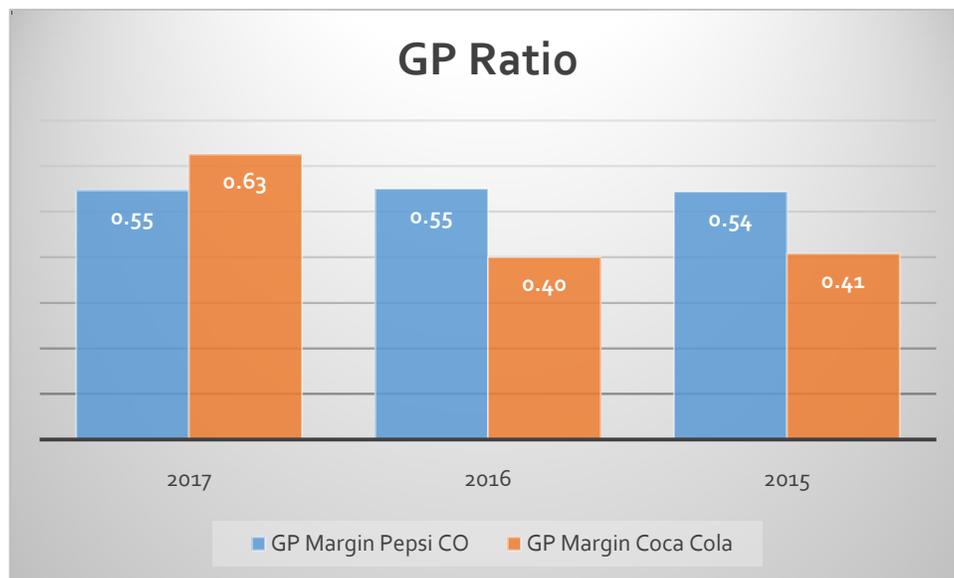
**Table 23:PepsiCo. Equity Ratio**

Year	Total Equity	Total Assets	Equity Ratio
2017	11045000	79804000	0.14
2016	11246000	73490000	0.15
2015	12068000	69667000	0.17

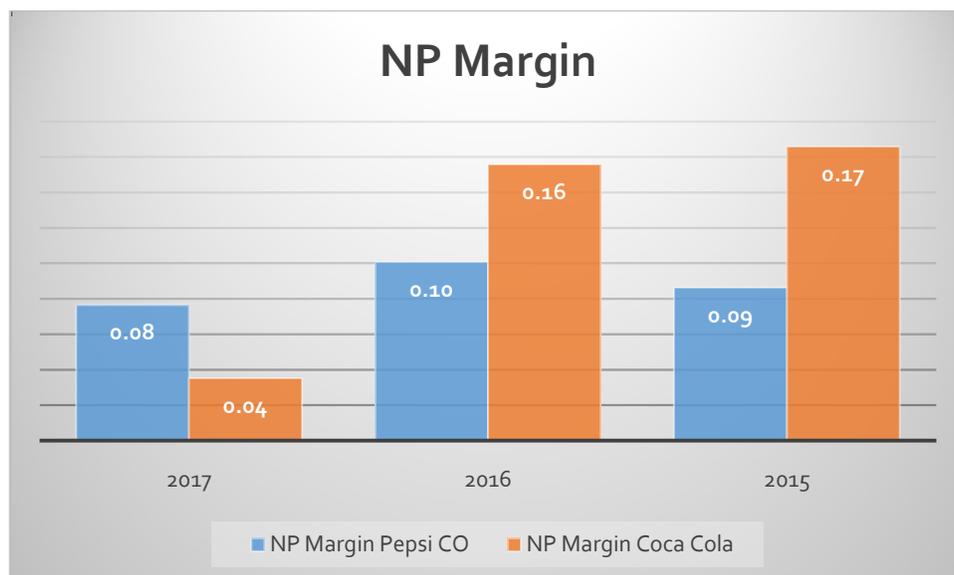
#### 4.3.5 Comparative Analysis of Pepsi Co. and Coca-Cola

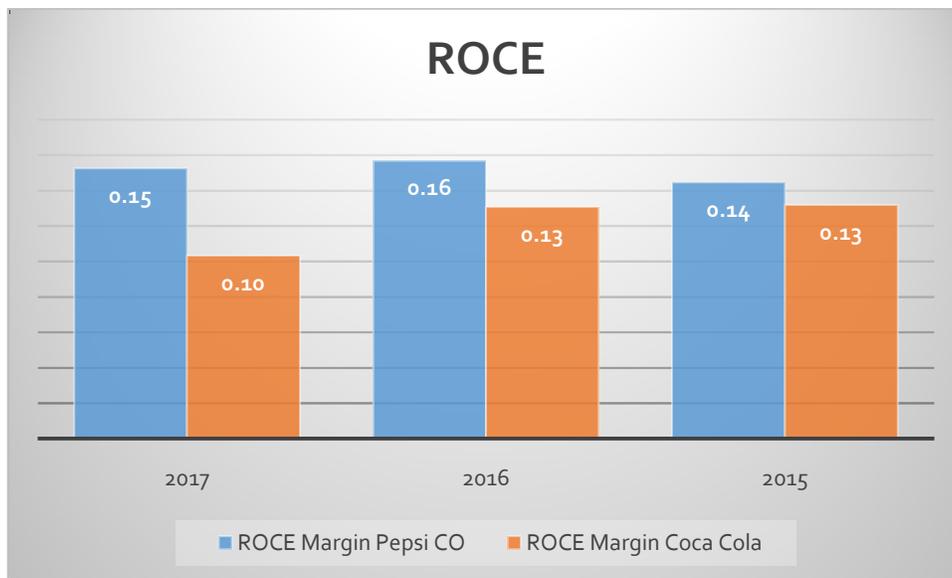
Besides individual analysis, the comparative analysis of the Coca-Cola's financial position was made relative to its competitor. The analysis revealed that Coca-Cola is maintaining a higher position in the market above its competitor by increasing the profitability in the last three years. It can be seen that Coca-Cola Inc. has increased its GP but not NP ratios since 2015 relative to PepsiCo. Such profitability can be attributed to the unique set of strengths currently possessed by the Coca-Cola Company such as popular brands, a strong network of partners and distributors, marketing capabilities and talented and skilled human resources. It can be stated that Coca-Cola companies utilising all the opportunities to convert its weaknesses into strengths. However, the company has failed in maintaining the gross profit margin due to rising operational costs and expenses. In this context, PepsiCo has shown improvements because PepsiCo has

operating cost margin of (55% - 8% = 47%) while Coca-Cola Inc has (63% - 4% = 59%). It is quite challenging for the Coca-Cola Inc. that despite facing similar macro and microenvironmental conditions, the company is unable to control its operating cost. Even the current NP ratio has worsened since 2015. The company is still unable to utilize its capital efficiently.

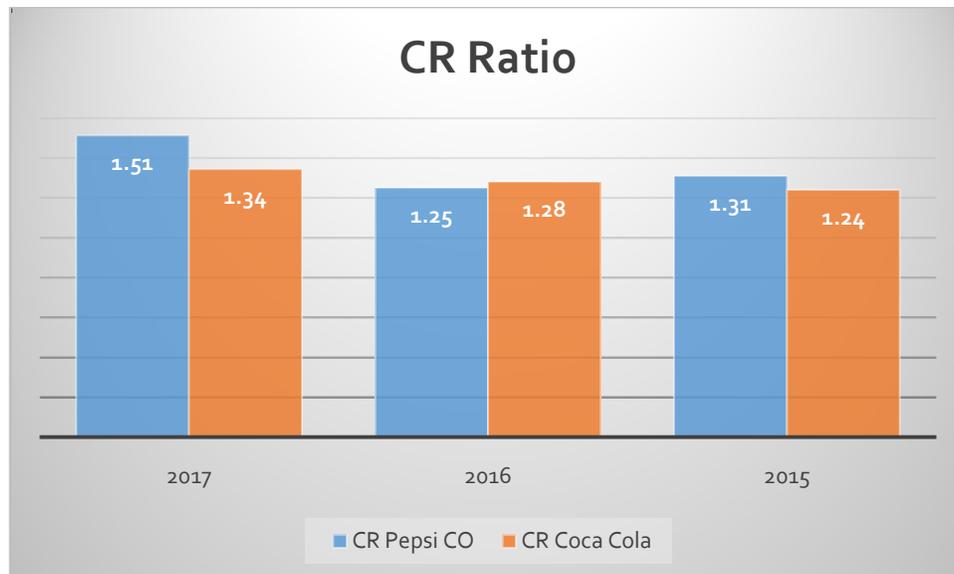


**FIGURE 1: GP RATIO**

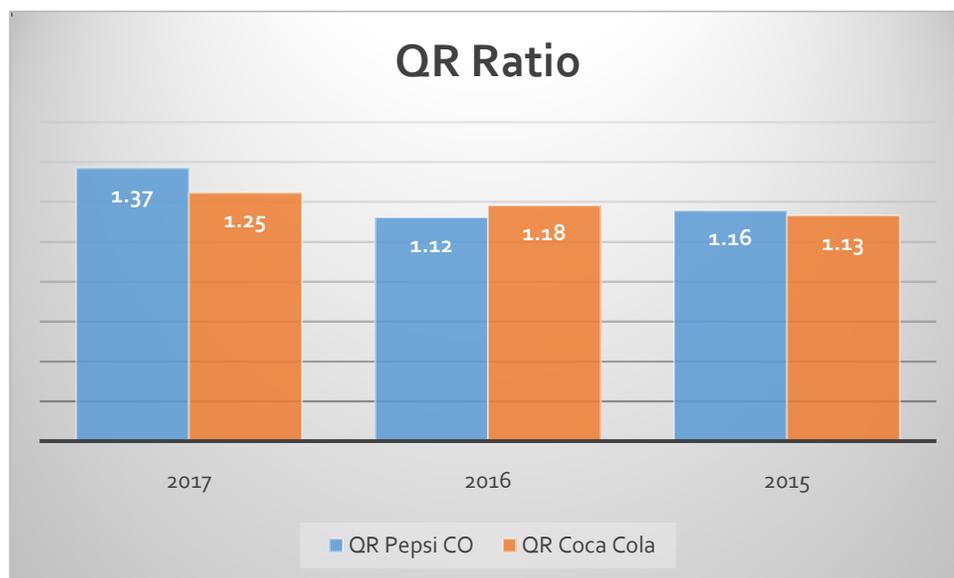


**FIGURE 2: NP RATIO****FIGURE 3: ROCE RATIO**

Likewise, liquidity ratio analysis of the two companies further exhibits that Coca-Cola Inc. is behind the competitor's benchmark in maintaining its current assets as well as readily convertible cash assets. However, such differences are not significant showing the ultimate impact of the macro environment of the non-alcoholic beverage industry. Moreover, the company has efficient inventory management controls (reflected through the relatively lower ending inventory amount in the balance sheet of the company) 0.9 inventory margin. Rising competitiveness and industry pressures are pressurising the business to make investments in the regulatory measures to show anti-obesity initiatives.



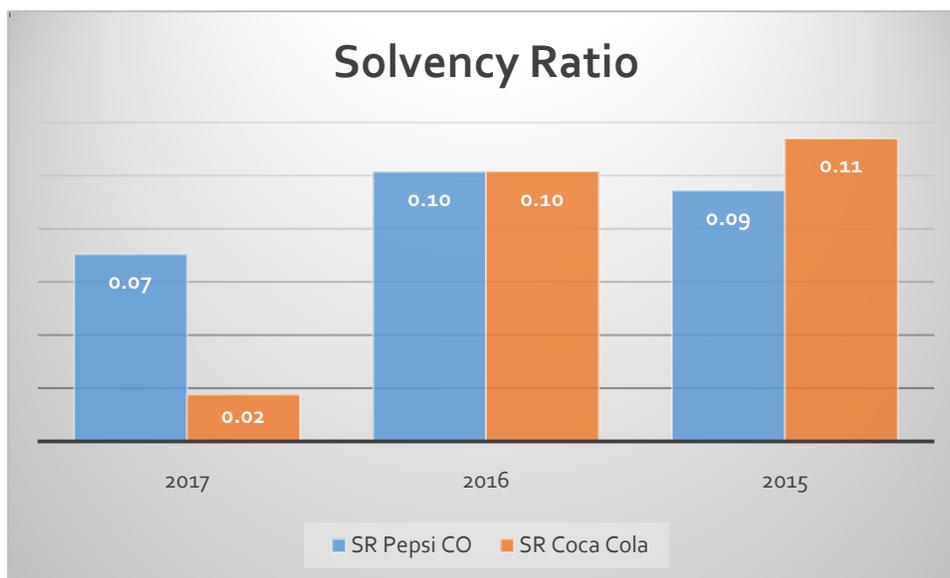
**FIGURE 4: CR RATIO**



**FIGURE 5: QR RATIO**

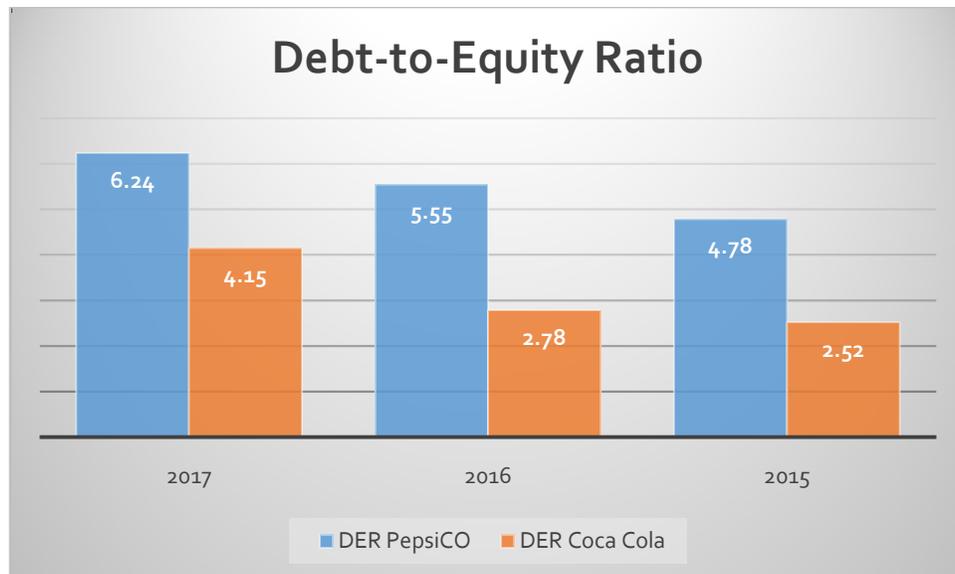
Solvency ratios were also compared to analyse the effects of the changing regulatory environment on the going concern of the two business. Unfortunately, Coca-Cola Company is unable to maintain their sustainable business in the long term. The current solvency ratio of the company is at the critical point i.e. 0.02. The company needs to focus on the long-term financial commitments along with the fulfilment of the

present ones. Furthermore, the company should look after reducing the high-level dependency on bottling partners. Like PepsiCo, the company should introduce and launch new products targeting the non-sugary beverages in order to avail opportunities related to the taxation and operational costs. Furthermore, it is quite astonishing that despite later following the severe cost-cutting initiative still Coca-Cola Inc. is unable to maintain its financial resources for the long-term commitments. The company should try to modify strategies for competing with the private-labels beverage brands. It can be analysed from the PESTLE analysis of the competitor i.e. PepsiCo that industry is shifting towards the trend of utilising big data and technological moves for dealings with the consumers' behaviours. Coca-Cola should accumulate a fund for such investments in the coming time for the sustainability of the business environment.

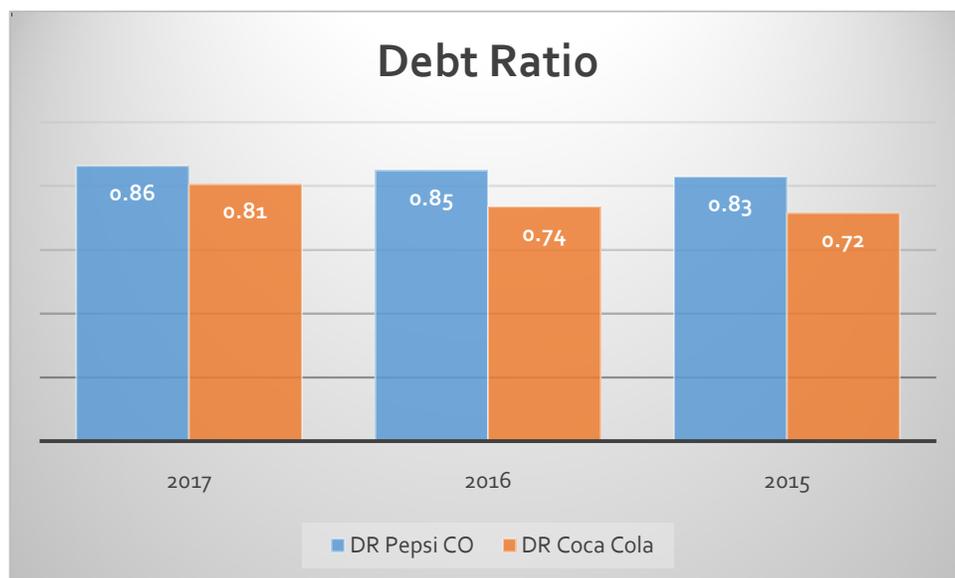


**FIGURE 6: SOLVENCY RATIO**

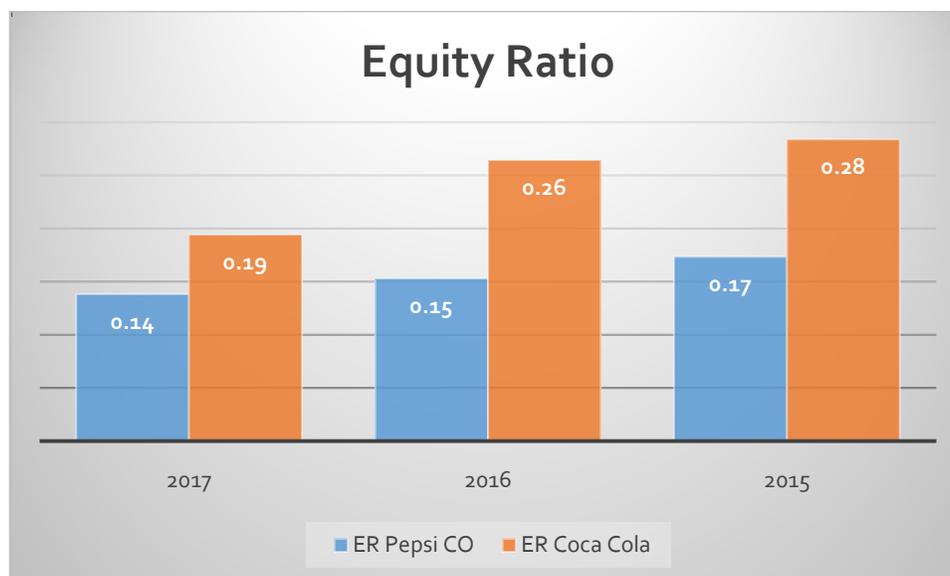
The portion of debt should be controlled in the capital structure to prevent the finance cost (interest expense). A large portion of accumulated debt for the long period devalues the company's stock in front of the potential investors too. However, comparatively, currently, Coca-Cola Inc. maintains a debt-to-equity ratio better than PepsiCo because the relative amount of debt is low and equity is high. This would be attractive to the potential investors planning to invest in a non-alcoholic international company.



**FIGURE 7: DEBT-TO-EQUITY RATIO**



**FIGURE 8: DEBT RATIO**



**FIGURE 9: EQUITY RATIO**

The comparative analysis has highlighted that Coca-Cola Company has improved gearing ratio while its liquidity, profitability and solvency positions need significant modifications. The critical analysis of the business performance, as well as financial performance of the Coca-Cola Company through the PESTLE, Swot and ratio analysis, has revealed that the current issues associated with the effect of sugary non-alcoholic beverages in increasing obesity across the globe have also affected the overall business performance of the company. The effect of changes in the business performance can be seen on the financial performance of the Coca-Cola Company too. The analysis has revealed that although Coca-Cola Company is capable of responding to the changing customers' demands and behaviours related to the sweetened beverages, the company still lack balance between the financial and non-financial measures. Such balance is highly necessary for improving the market position in times of crisis, i.e. brand reputation crises in the international market. From the practices of the company, it can be seen that Coca-Cola has responded to the regulatory pressures by making additional investments in modifying the production techniques as well as by launching the new products in the category the non-alcoholic beverage. However, for meeting the new regulatory requirements the company needs additional funds for which Coca-Cola has started increasing its debt levels in the capital structure, but the high debt level in the company cannot help the management in achieving the long-term

competitive landscape. The heavy investment in funding research and development projects to justify its claim that sugary product is not adding to the rising obesity levels, cannot be stated as a prudent step taken to deal with such issues. The company is currently working hard to deal with the blame for obesity without any practical exercise, which is further leading to the legal implications and legal cost for the business. Instead, the Coca-Cola Company should focus more on modifying its production by changing the materials and technology leading to the unhealthy production of sugary non-alcoholics like the PepsiCo. Like its competitors, Coca-Cola company should also introduce a new zero sugar product in order to show its initiative towards the reduce obesity goal.

## **5. CONCLUSIONS**

Hence, in pursuance of the answer to the key research question, it can be concluded that the business and financial performances of Coca-Cola Inc. have changed adversely between 1 January 2015 and 31 December 2017. The company has increased its gearing position while the liquidity, profitability and solvency positions have deteriorated in the last three years. It can be analysed that the industry competitor is ahead relative to Coca-Cola in dealing with the changing regulatory requirements and consumers behaviours by making heavy investments in the supply chain, fixed assets and gearing positions. In case the Coca-Cola Company's management is unable to take specific measures to deal with the changing circumstances, there is a possibility that the company will further lose its market value and reputation in future. Macro and microenvironment analysis of the non-alcoholic beverage industry has highlighted that there is a need to change the competitive approach in order to deal with the new entrants as well as the existing players in the international market. This time is not reflective of the argumentative practices to justify the business practices rather it is necessary to modify the business practices according to the changing perceptions. The company need to modify its business practices based on the measures taken by the PepsiCo.

## 6. RECOMMENDATIONS

Lastly, based on the examined issues and company's initiative in order to deal with the changing consumer demands and regulatory environment, Coca-Cola needs to focus on the set of following suggestions. At first instance, it is highly necessary to adopt a stakeholder approach rather than going towards the shareholder approach (Linskens & Jackson, 2012). The company should not focus on cost-cutting initiatives would not focus on research and development to justify its claims rather the investment are needed to modify its techniques of production, packaging and distribution systems (Quirnbach, et al., 2018). Coca-Cola should try to minimise the use of sugary content in its beverages and specify the percentage of sugar content on the packaging. The company should move away from the use of unhealthy white sugar in the beverages towards the healthy alternatives such as brown sugar. The company should acquire plants and equipment to test scientifically each of the ingredients as well as its products before supplying it to the market in order to avoid the legal costs (Cornelsen, et al., 2017). Furthermore, operating cost would be controlled by reducing the administrative costs, research and development costs and financial cost associated with the accumulated debt levels. The company should also try to strengthen its internal resource base to reduce dependency on the supply chain and distribution networks in the international market, which will ultimately help the company in saving the operational cost associated with the supply chain management (Vargas-Garcia, et al., 2015)

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## APPENDICES

## EXTRACTS FROM FINANCIAL STATEMENTS



FIGURE 10: (PEPSI Co, 2017)

## Portfolio Transformation



Better for You and Good for You products are an increasing percentage of our total portfolio.



Kombucha, while introducing Tropicana Probiotics. And our distinctive **Black**ican Pepsi—known as Pepsi Zero Sugar or Pepsi Max—continued to gain ground around the world.

We also introduced Quaker 3 Minutos, an affordable, whole-grain, oat-based product that delivers daily nutrition to consumers across Latin America, and Off the Eaten Path, a series of vegetable- and legume-based products like Veggie Crisps, Hummus Crisps and Sweet Potato Crisps available in the U.S. and UK. And we built on the success of the Simply brand with new products like Simply Doritos White Cheddar.

These are just a few of the more nutritious products we launched in 2017, building on more than a decade of progress transforming our portfolio. **In fact, while in 2006 our Fun for You portfolio was about 70% larger than our Good for You and Better for You portfolios combined, by the end of 2017, they were nearly equal in size.**

Enabling this shift in our portfolio has been our long-term investment in R&D—from product reformulation to sweetener and ingredient discovery—that has produced foods and beverages with fewer calories, less salt and reduced fat without sacrificing great taste.



Figure 11: (Pepsi Co, 2017)

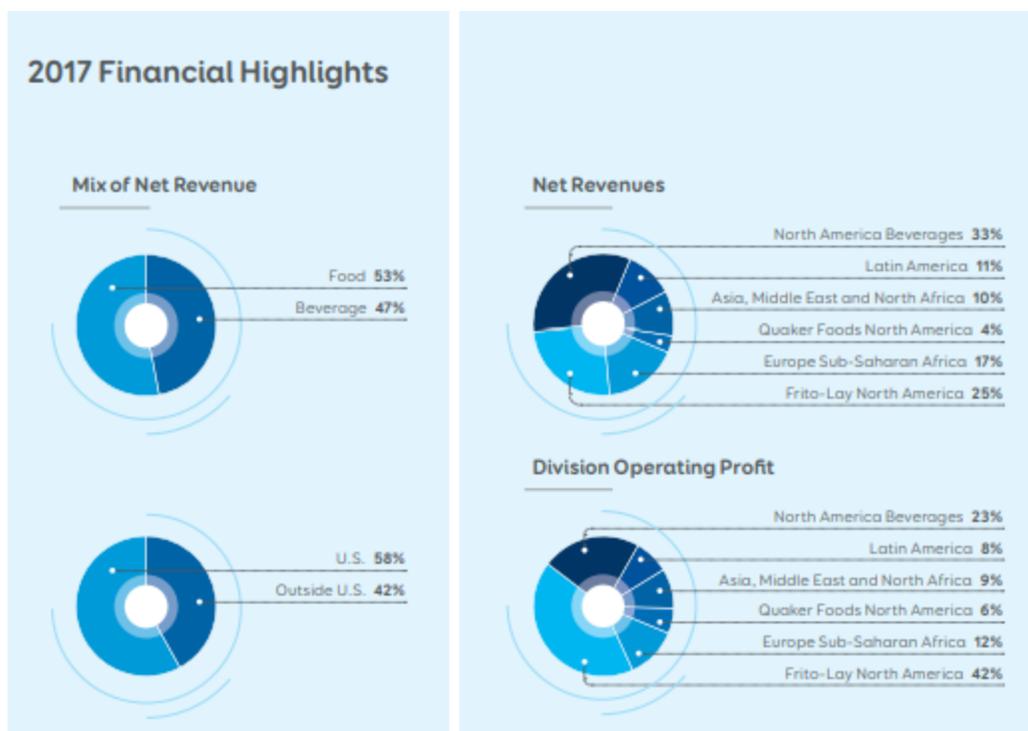


Figure 12: (Pepsi Co, 2017)

**Public debate and concern about perceived negative health consequences of certain ingredients, such as non-nutritive sweeteners and biotechnology-derived substances, and of other substances present in our beverage products or packaging materials, may reduce demand for our beverage products.**

Public debate and concern about perceived negative health consequences of certain ingredients in our beverage products, such as non-nutritive sweeteners and biotechnology-derived substances; substances that are present in our beverage products naturally or that occur as a result of the manufacturing process, such as 4-methylimidazole (“4-MEI,” a chemical compound that is formed during the manufacturing of certain types of caramel coloring used in cola-type beverages); or substances used in packaging materials, such as bisphenol A (“BPA,” an odorless, tasteless food-grade chemical commonly used in the food and beverage industries as a component in the coating of the interior of cans), may affect consumers’ preferences and cause them to shift away from some of our beverage products. In addition, increasing public concern about actual or perceived health consequences of the presence of such ingredients or substances in our beverage products or in packaging materials, whether or not justified, could result in additional governmental regulations concerning the marketing, labeling or sale of our beverages; possible new or increased taxes on our beverages by government entities; and negative publicity, or actual or threatened legal actions against us or other companies in our industry, all of which could damage the reputation of, and may reduce demand for, our beverage products.

Figure 13:(Coca-Cola Inc., 2017)

**Obesity and other health-related concerns may reduce demand for some of our products.**

There is growing concern among consumers, public health professionals and government agencies about the health problems associated with obesity. Increasing public concern about obesity; other health-related public concerns surrounding consumption of sugar-sweetened beverages; possible new or increased taxes on sugar-sweetened beverages by government entities to reduce consumption or to raise revenue; additional governmental regulations concerning the marketing, labeling, packaging or sale of our sugar-sweetened beverages; and negative publicity resulting from actual or threatened legal actions against us or other companies in our industry relating to the marketing, labeling or sale of sugar-sweetened beverages may reduce demand for, or increase the cost of, our sugar-sweetened beverages, which could adversely affect our profitability.

Figure 14:(Coca-Cola Inc., 2017)

## **SKILLS AND LEARNING STATEMENT**

### Reflection on Meeting with Mentor

The meeting experience was quite helpful in clarifying my understanding of the requirements of RAP and the strategy to carry out such analysis on topic 8. I met my tutors to gain an idea that whether I am going in the right direction. He helped me in setting out data collection and data analysis techniques and guided me about the ways to plan and execute the research to achieve the objectives of the project.

### Achievement of RAP Research Objectives

After the completion of the research project, I was able to achieve my set research objectives 100%. By integrating the strategic business management frameworks such as PESTLE and SWOT analysis with the ratio analysis, the gathered findings of Coca-Cola Inc. and PepsiCo, ultimately helped in the successful analysis of overall business performances. The analysis helped in comparing Coca-Cola Inc. performance with the industry through the PepsiCo's analysis.

### Interpersonal and Communication Skills

Throughout the research process, I was able to increase my interpersonal skills by communicating with others, directly and indirectly, involved in the research project such as classmates, Mentors. Additionally, written communication skills were improved while using the published information in presenting relevant findings of Coca Cola's business and financial performances after obesity blames. I was able to combine a mix of textual and visual findings (text, graphs, table, and chart) for better conveying of the results. Similarly, the RAP was also helpful in enhancing my oral skills by presenting research and analysis orally, in front of the mentors.

### RAP's Help in Accounting Studies

The project was helpful in understanding the role of practical accounting in understanding how the real-life organisations perform and their business is affected due to the changes in the macro and microenvironments.