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Global Value Chain: The Coca-Cola System

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Abstract

In this study I will analyse how The Coca-Cola System works, its characteristics and its trends.

Throughout the last century, the world has seen huge and great changes in social, political and economic terms. These changes are mainly due to the technological improvement that the world has experienced. These technological improvements are really connected and strictly linked with the phenomena of globalization. The globalization is the increase of *interdependence of economies* across the world. The globalization and the technological improvements together brought also some changes in how producing products: after the Second globalization wave (1980) that was characterized by the ICT (information, communication and technology) revolution, some organization in the world begun to split their value chain in order to place each different stages in different places exploiting the positive features of each geographic area. The value chain is the sum of the total activities that are needed, by a firm to produce a product from the conception stage, to the end use and beyond. When a company decides to split and locates in different places each stage, we are in front of a global value chain.

The Coca-Cola System is one of the major examples of global value chain. In The Coca-Cola System there are two main players: The Coca-Cola Company and the Anchor bottlers. The Coca-Cola Company creates the demand throughout consumer and brand marketing instead each different bottlers in their different territories are responsible for meeting this demand. The Coca-Cola Company is responsible for the production of the concentrates, has the ownership of all the brands or it has the licence to produce and sell the ones that it does not owned; it is also responsible for the consumer marketing of the products and for all the external relationship between the Company and all the third players. The Anchor Bottlers are responsible for the production of the final product from the syrup that they buy from The Coca-Cola Company; they are responsible for the selling part of the value chain and for trade marketing and all the relationship with the local community and with the local government.

There will be also a deeper analysis on three major bottlers in order to better understand which are the features and main challenges of each one.

At the end, I will finally try to deduce which is the trend that characterized last years of The Coca-Cola System and how this trend could evolve in the next years.

1. An introduction to the Global Value Chain: story and development throughout time.

During last years, the world has seen different phenomenon in the economic development driving by the globalization. The global value chain is one of these new phenomena.
But what is in the first place a "value chain"?
A value chain is the sum of the total activities that are needed, by a firm to produce a product from the conception stage, to the end use and beyond.
All of these steps might be performed by a single entity or might be split within different companies that are then responsible just for those single steps. Further, there are some situations where different steps might not take place in the same countries: in this situation, we are dealing with a *global value chain*. The global value chain is a phenomenon due to three basic ingredients: *globalization, technological changes* and *political changes*. All of these ingredients are really interconnected each other. There were some key pillars that influenced the birth of global value chain which also characterize globalization: lower transportation and communication costs and new economies of specialization, scale and scope.
The globalization is the increase of *interdependence of economies* across the world. This definition takes into account a lot of economics and social activities as: migration, finance and technology in addition to trades. The major result that the globalization has brought is the increase in trade across the world. The international trade in goods and services as a share of GDP has been increased throughout the years: the exports in the OECD countries grew by a 26.4% to 29.4% and instead the imports increased from a 27% to a 29.8% from the 2007 to 2012[1]. The fact that the rich countries have increased their exports and imports, of the same category of products, is called "*intraindustry trade*". As we know, this intraindustry trade is not justified by the traditional trade theories that academics have studied.
Another key pillar of the globalization is the increase of the *international financial flows*. These flows could be split into two different sub categories: the *foreign direct investment* (FDI) which are all the inward flows that go

[1] Source: OECD Factbook 2014

directly toward investment in factories, machines, and businesses; the other sub category is *portfolio investment*, which are all the international inward investment that are (principally) made in shares and bonds.[2] Generally FDI have a greater impact on economic growth than portfolio investment: this is due since FDI concerns and is influenced by *know how*. In fact, one of the most important result and also driver of the globalization itself is the flow of the *knowledge* across the world.

In order to better understand the weight that the FDI might have in the economic growth for a country, could be useful to take into consideration and analyse in a deeper way one of the emerging and faster economy worldwide: the Chinese's Economy.

The FDI were one of the greatest and principal components for the Chinese growth. From the 2000 the GDP in China was constantly increasing, with a mean of 3.45% between 2000 and 2005 and this growth was driven by a steadily growth by exports and FDI[3]. Between the years 2005 and 2011 the growth was even at a higher rate with only a fall during the 2008 due to the financial international crises. This increment of FDI in China, have been started in 1978 with the so called "*open doors policy*". This policy had its final conclusion with the Chinese entrance in the World Trade Organization (2001). The "open doors" in the country, give the possibility to the multinational company to invest in China, creating jobs and pushing a social and economical change. The employment rate has been really high from the 2000s: it was always over a mean of 42%[4]. Furthermore, the multinational company invested in China due mainly to the low cost of manpower and to the low currency power.

It is also interesting to see which is the country that invested more in China in the last years and why. Hon Kong had the first place as investing country due to the phenomena called "*round tripping*". The round tripping is the

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[2] Christine Greenhalgh, Mark Rogers Innovation, Intellectual Property and economic growth

[3] It is really fundamental to underline that all the data are taking from the China Statistical Yearbook 2012 and many economists complain about some mismatches between the actual data and the Chinese data.

[4] China Statistical Yearbook 2012

funds reinvestment that origins from China and then are re-imported with the aim to take advantage thanks to the special treatment saved for foreign companies[5].

1.1 The History of World Trade

The origin of World Trade is to date at the start of the Silk Road. Thanks to this road, there were trades for each different product in the world between China and Mediterranean country: animals, silk and precious metals.
Making a long step ahead, the evolution of world trade has to stop during the 17th century, where Britain started a long interaction in terms of trade with all the others European countries.
Then from 1870 to 1930s the world trade ratio (% of GDP) steadily grew, but due to the war and to the Great Depression in the USA the 1930 rate fell to 1870 level.
It was only after the period Post-World War II that this rate started to growth again and rapidly: the rate reached 18% by 2000 and economists argued that this increased is mainly due and foster by all the international organization that were formed as the IMF (International Monetary Fund) or the World Bank and some agreements as the GATT (General Agreement on Tariffs and Trade) that was the predecessor of the WTO (World Trade Organization).

1.2 Trade Theories

The first and basic trade theory is the theory of comparative advantage (Ricardo, 1817). As the name said, this theory states that countries have to specialize in single product or industry and then they might trade between each other. For instance, taking Portugal and England as countries: Portugal has to focus on wine and specializes on it, instead England in textile and then they can trade. In the mind of Ricardo, this theory should explain why and how different countries have to engage in international trade. The specialization for Ricardo depends on geographic condition and situation,

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[5] Investopedia

such as climate reason or raw materials that led to a difference in productivity. For Heckscher and Ohlin, and also for Samuelson, whose theories are collectively known as the HOS model, the source of comparative advantage is not productivity, but rather the country's factor endowments.

But this theory has a big question mark: how does it work when a country opens itself to international trade and reaches the highest point of specialization in its product/industry? It seems from the theory that the growth will stop. So, It is important to find out a different theory that could address the globalization features and could be more dynamic as a theory itself.

There were other theories that focused on differences in each country: Vernon stated a theory based on product that progresses through three stages of development: new product, maturing product, and standardized product.

Vernon furthermore stated that new products are made mainly in high-end economy and the production of these new products is in the host economy (developing county). Whenever the product is matured, firms focus more on moving the production in country where the costs are lower. In this way, the company has transportation costs and production costs reduced and the product could be spread worldwide[6].

All of these theories were born after the first industrial revolution that brought to the First Globalization Wave (19th century) that was characterized by the steam engine: the steam engine enabled the possibility to cluster the production line in some places but the economy of scale was the characteristics that made it profitable. Transportation costs got reduced and became medium, so it was made possible for production to cluster in some places and cities grew because of the concentration of economic activities (Manchester was the point of convergence for the textile industry, Detroit for the car one and so on). But this brought to an increase of geographical divergence: some places gained a lot of production activities, while some others lost their productions. Also income and wealth became clustered: there were cities where people increased their standard of living

[6] Christine Greenhalgh, Mark Rogers Innovation, Intellectual Property and economic growth

rapidly and cities where the standard of living was dropping. Furthermore, there was also big effect on migration. So deeply, 5 factors characterized the First Globalization Wave[7]:

I. North industrialization and South de-industrialization

We will see how the North is industrialized while the South is not industrialized.

Table 1. Per capita level of industrialization (UK in 1900=100) between 1750 and 1953.

Country/Region	Years					
	1750	1800	1860	1900	1938	1953
A. Developed countries	8	8	16	35	81	135
B. Europe	8	8	17	33	94	107
Belgium	9	10	28	56	89	117
France	9	9	20	39	73	95
Germany	8	8	15	52	128	144
Italy	8	8	10	17	44	61
Russia	6	6	8	15	20	38
Spain	7	7	11	19	23	31
Sweden	7	8	15	41	135	163
UK	10	16	64	100	157	210
USA	4	9	21	69	167	354
C. Third world countries	7	6	4	2	3	4
China	8	6	4	3	4	5
India	7	6	3	1	4	6
World	7	6	7	14	31	48

Source: Bairoch, 1982

II. Growth took off

The steam engine made it possible to produce products at a vast scale. This fostered the growth and also the birth of production cycle.

III. Divergence/convergence in income

The first wave was mainly concentrated in the North countries. This brought a gap in the income distribution and level.

IV. Boom in migration

[7] Global value chains in a changing world, Deborah K. Elms and Patrick Low

The steam engine revolution brought also a different way in which people could travel. It made easier and safer and also the divergence between North and South brought people to migrate to the countries where living condition where higher.

V. Production cluster

As I mentioned before the production clustered in few places where there could be a deeper specialization in the industry and the product. The world's economic geography went from homogenous to more "spiky" (Florida, 2005)

In 1980, there was another milestone that marked the birth and development of global value chain and more in general an enormous evolution on how the firms invested in different countries: in 1980, the *Second Globalization wave took place*. This wave took place thanks to the *ICT revolution* (information, communication and technology). The ICT revolution made it possible to coordinate and control a lot of activities at distance. The ICT revolution made it possible the new globalization but it was the wage differential in different countries that made it profitable.

So it is important to highlight the differences between this second wave from its predecessor: the first one was mainly across the developed economies, instead the second took also place in *emerging and developing countries*. Further during the second wave the Asian countries overcome North America economies for their weight in the international trade.

In this context, the basic and traditional theories about international trade lost their value: there were no more countries that specialized itself in a different industry or product but countries both export and import a lot of same goods and the debate was mainly on headquarters vs. manufacturing countries.

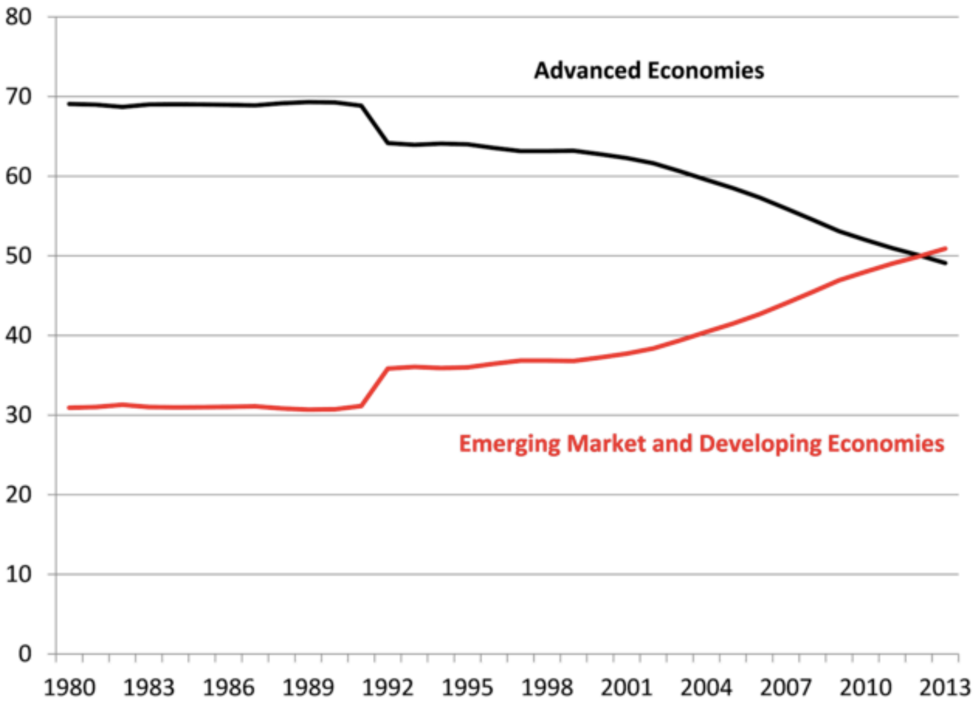
There were 5 facts that characterized this second globalization wave:

I. Income Convergence

After centuries of divergence in income and wealth now, with the exception of some countries, there have been a convergence in income distribution.

The gap between rich and poor people is growing within developed countries, but the gap between countries is decreasing very fast.

Graph 1: Gross Domestic Product (Purchasing-Power-Parity), Share of World Total Per cent. 1980-2013



Source: IMF World Economic Outlook

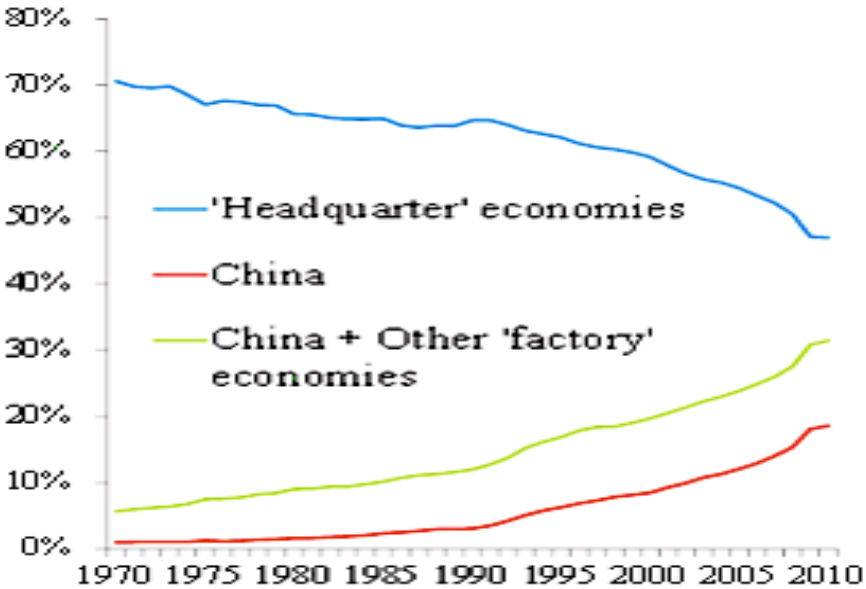
II. New industrialization Trend

The new wave brought another trend in terms of building supply chain: companies and nations (mainly developing nations) preferred to join in the already set supply chain than built by their own another one from the beginning. This way is preferred for two main reasons: it is faster and especially it is safer. Countries that chose to join instead of building by their own were called "*emerging market economies*".

III. South industrialization and North de-industrialization

There was an opposite trend respect to the first globalization wave in fact the gap between headquarters countries and manufacturing countries was decreasing. The Asian countries were the countries that drive more this trend:

Graph 2. Headquarter vs. manufacturing countries development



Source: UN online database, unstats.un.org

IV. The rise of trades-investments

Thanks to the ICT revolution there was an increase in: trade in good and services (especially parts and components); international investment (FDI) in production or long term partnerships; international flows of know-how, both technological and managerial and consequently of IPRs (intellectual properties rights, since without them the Globalization would be more difficult); investment in infrastructure (transport and ICT technologies).

V. The new face of economical policy

So far, the traditional economical policy of a country stated that the borders would be opened only if also other countries do the same; in this context instead the approach would be different: a country opens itself to attract new investment and in this way fostering its internal growth.
This new trend of trade liberalization reached its peak with the GATT[8] and with the establishment of the WTO in 1995.

[8] General Agreement on Tariffs and Trade is an international agreement signed by 23 countries in the 1947 that built and established the bases for the trade liberalization and for international trade relationship.

1.3 Agglomeration Forces vs. Dispersion Forces

One of the greatest issues in splitting the value chain concern how and where locates the different stages. Of course there is a trade off in deciding if different steps have to be spread worldwide or not. This trade off is based on two different categories of costs: *direct factor costs and separation costs*. For instance, higher the separation costs are, higher has to be the estimated profit in order to divide and spread the value chain. If the estimated profits are lower than the cost (in this example separation one), the company decides to keep each steps of the value chain together.

The *Agglomeration forces* are that kind of forces that push firms to keep the entire product stages together[9]. They encourage firms to keep the steps clustered. There are different agglomeration forces: *spill overs, coordination needs, trade cost* (trade costs might be ambiguous).

Spill overs are local forces that depend by some positive externalities that a location has in contrast with another. Positive externalities are all the benefits that come from something that is not directly done by the firm or the individual. For instance, positive externalities could be the presence in a specific location of the entire industry where the firm is working in. In this case exits a positive externalities since the technological flows of know how is easier and faster.

Coordination needs are another agglomeration forces that push the company to not separate all the activities in a value chain. The coordination needs are needs that are necessary to have complete and consistent operations. The proximity of all the steps helps firms in having faster, safer and cheaper operations in some industries.

The Dispersion forces are all the situations and conditions that push firms to separate the stages in a value chain locating different steps in different places[10]. There are mainly two dispersion forces: *wage gap and specialization.*

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[9] Global value chains in a changing world, Deborah K. Elms and Patrick Low

[10] Global value chains in a changing world, Deborah K. Elms and Patrick Low

So, the first one is the wage differential. This difference is a huge gap when we are taking into consideration developing and developed countries. This gap foster firms to offshore some of the steps that are labour intensive as productions. Usually the first, (research & development) and the last part (post fab-services) of the value chain are kept into the home country. So, summing up the wage differential push firms to keep the high skilled intensive stages at home, off shoring all the low skilled works.

The second force is the specialization. The specialization concerns a country that reaches the excellence in some industry or some specific product. For instance, let's take into consideration the building machine and excavator industry: a Chinese firm as Sany decided some years ago to move its research and development department in Europe, more specifically in Germany where there are the most important companies in terms of innovation. All the other steps where kept into China and in this way Sany could exploit the German innovation with the Chinese production costs[11].

Last but not least, there is another force that has to be taken into consideration: trade costs. Trade costs are forces that could be really ambivalent based on the amount. They could push for agglomeration if there are intermediate trade costs. Instead, if the costs are high or low, they will push for dispersion:

- With high trade costs, the production is dispersed. There will be one production line for one location, because it is unprofitable ship goods and therefor production must be located close to consumption;
- With low trade costs, the production is also dispersed since it does not matter where the production is set, with zero trade costs is irrelevant.

1.4 Which stages are Off-Shored?

After the consideration made about the different forces, in order to deeper understand how does it work a global value chain it is important to highlight which are the stages that are off-shored and which are instead the ones that are not off-shored.

[11] Sany annual report 2011

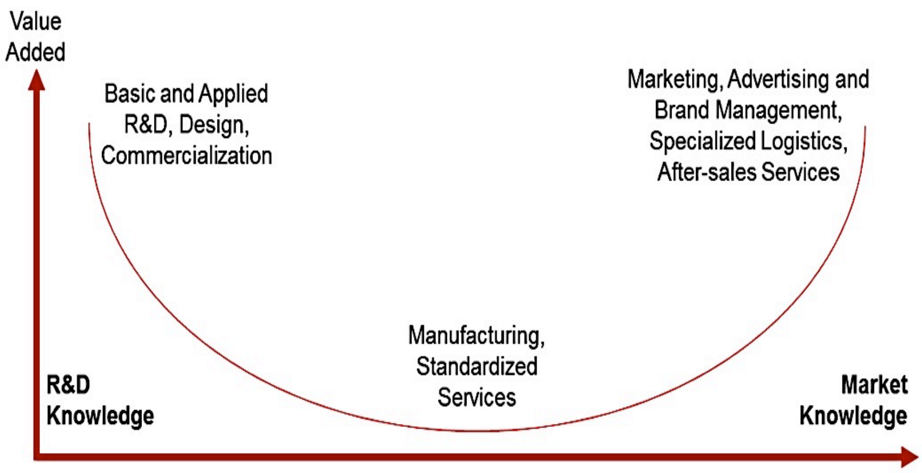
Typically, all the pure production phases are off-shored. This is mainly due to the fact that are off-shored in last developing countries or emerging ones, exploiting the huge wage differential that characterized these territories from the developed ones.

At the opposite, the pre fabrication stages as research and development, design and the post fabrication as customer services and marketing are the one not off-shored. This is because in these stages there is the most part of the value creation and firms are usually not support the idea to uproot their origins.

Naturally, this division in off shoring just some of the value chain steps produced a difference also between countries. This ends with the division between *Headquarter and Factory economies*. A consequence of this division could be seen in the job demand in the distinct countries: in headquarter economies there will be job demand for high skilled job with high salary; in factory economies instead there will be job demand for low skilled work with low salary. This also provokes different standard of living in different economies.

So, the value added could be considered more concentred at the upstream and downstream ends of the value chain. All the activities at the ends of each part (downstream and upstream) are the one with high intensive knowledge and creativity. This fact is also known as the "*smiling curve*"[12].

Graph 3. The Smiling Curve



Source: Interconnected economies benefiting from GVC, OECD 2013

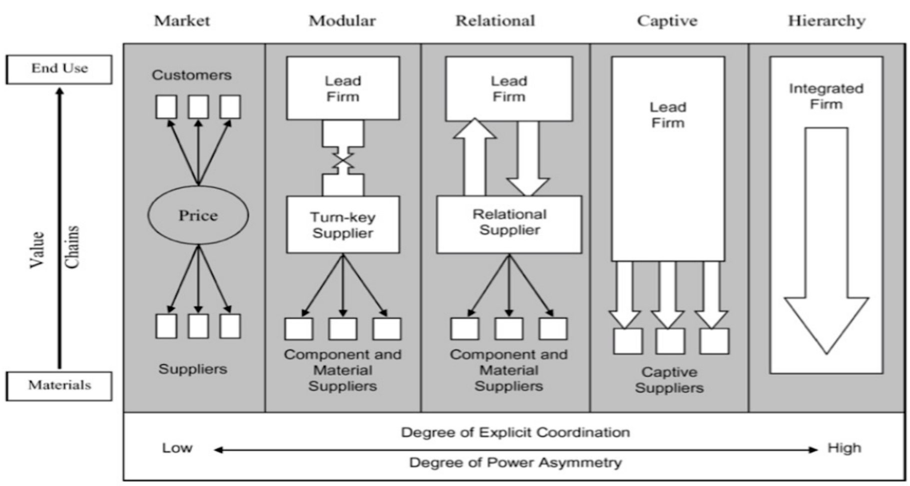
[12]Who's smiling now? OECD Observer 2013

All the steps that are in the middle of the "smile" are steps that involve less value creation as final assembly or manufacturing.
Some argue that this curve is going to deepen again. This is due to the fact that the activities (fabrication and assembly) in the "smile" are accounting for a much lower share of value added. The value added of a stage depends on the cost of the stage itself, in the value chain. So, since all of the stages are continuously off-shored, their costs are steadily decreased throughout last years. This is mainly due to two factors: *the relative market powers* of the off-shored economies and *the international mobile technology*. The off shore stages are stages that can be done in many emerging nations and in this way they do not have a lot of bargaining power. Then, if the offshoring firm relocate its technology to the host country where the firm has the off-shored location, it will foster more the cost down for these stages.
Given this, a lot of policy makers are striving for rising up this smiling curve especially in emerging countries where technically economy are not able to capture the value creation that they deserve.

1.5 Types of Value Chain Governance

The *value chain governance* is the relationship that exists between all the players that might influence the total activities representing the value chain.
We have five types of Value Chain Governance[13].

Figure 1. Types of Value Chain Governance



[13] Types of Value Chain Governance, USAID from the American People

In the *market* governance, where the transactions are simple, the producers could produce without great and deep inputs of buyers since the information are easily transmitted[14]. Since the inputs are low, the interconnection between producer and buyer will be low and the cost to change the buyer or the producer will be low.

In the *modular* governance, there is an interconnection and dependency a little more important than in the market governance situation. Here, the suppliers take fully responsibility for the process technology and often it will use same machinery for different clients to spread risks and costs, keeping the switching cost low but having more complex relationship between suppliers and customers.

In the *relational* governance, the relationship between the buyer and the supplier is more important since there is a higher interactions and knowledge sharing and this knowledge is not easily transferred as is it, in the before mentioned types, so the costs for switching are, now, heavier.

In the *captive* governance, there are small suppliers dependent on buyers, and buyers more powerful and with more control in the deal. This asymmetry causes high degree of monitoring and control. Furthermore, the asymmetry also provokes a dense dependency of suppliers on buyer, increasing the costs of switching buyers.

The last one is the *hierarchical* governance. In this chain, all the steps are inserted in a vertical integration strategy. In this vertical integration there is a high managerial control and it occurs when the product produced is complex and its specification cannot be codified or suppliers with the competence to produce it are hard to find. Hierarchical structures provide a strong and solid place of work, guarantee quality and a remarkable producer capacity.[15]

1.6 The importance of FDI

There are two types of international flows: the *FDI* and *the portfolio investment.*

[14] Types of Value Chain Governance, USAID from the American People

[15] Types of Value Chain Governance, USAID from the American People

A foreign direct investment (FDI) is an investment made by a company or entity based in one country into a company or entity in another country[16]. A FDI is an investment that has a "*lasting interest in the entity*" (IMF 2007). That means in a way that with a FDI the entity or the company wants to have some control or some influence in the entity or company in which the investment is made. The portfolio investment instead is a buy out of stocks or bonds in another country. The way in which money could flow from a country to another is seen also as "*capital liberalization*". The effects of it are really ambiguous since there are both positive effects as it allows investors to pursue the best returns and negative effects as instability and volatility in the market.

Connected with FDIs, there are possible *direct and indirect positive effects*. Direct effects are linked with the GDP growth or increased tax revenues that a foreigner investment might provoke; indirect effects are the one connected with the facts that domestic firms might improve their productivity. But we are always talking about "possible" effect. Empirical studies states that effects on the country depend on the level of FDI and its level depend on the originating country, the openness of the host economy and the activities of the multinational company. So, the FDI effects have to be studied case by case.

Further, FDIs could be sub-divided into: *horizontal or vertical FDI and inward or outward FDI.*

The horizontal FDI occurs when company invests in another country in the same industry in which operates domestically. In Vertical FDI, it invests in another country, in another industry.

The Inward FDI is an investment made by a company buying or investing in national company, considering the investments with the eyes of the host economy. An outward FDI is considering the same investment with the eyes of the home country.

So, a company could invest in another country with a horizontal or vertical FDI, offshoring or not the stages.

[16] Definition by Investopedia, www.investopedia.com

Table 2. Global Fragmentation and FDI

	Multinational (Same firm)	**Not Multinational (different firm)**
Horizontal fragmentation	Horizontal FDI	International franchising
Vertical fragmentation	Vertical FDI, International outsourcing	Off shoring

When we take into consideration the first column (same firm) all the investments are made within the boundaries of the same firm. In the International franchising, the company gives the licence to use the brand name and image to sell the product in another country in change of a payment of a royalty fee. In the off shoring the company decides to split one step in the value chain giving it to another company in another country.

Toyota is an example of Horizontal FDI. Its production line is a fully owned production value chain with products produce worldwide. Intel instead is an example of Vertical FDI since the unskilled worked is only in developing country but the production line is fully owned by the company. Coca-Cola instead works in an international franchising way since some of its bottlers are independent company with the licence to produce and sell cokes. In the end, Nike works totally off shoring its production line to other independent footwear company.

1.7 The technological flows of know how

The *technological flows of know how* is one of the major results of the globalization[17].

The basic idea behind the technological flows is based on the *technological gap* that countries have. The progressive reduction of this gap is call

[17] Innovation, intellectual property and Economic growth, Christine Greenhalgh and Mark Rogers, Princeton University Press Princeton and Oxford

"*technological catch up*". The catch up and the learning capacity of a country depend on two different factors: first of all, there is the size of the gap between the follower country and the developed one; second, it depends on the *absorptive capacity* of the follower country and this means the possibility and ability of the country itself to learn, implement or reproduce the new technology that influence the gap size.

Countries with high absorptive capacity and a huge technological gap could exploit a rapid social and economical growth.

Furthermore, some economist have argued that the catch up model has to be integrated with new and more realistic possibilities[18]:

a) Reset the gap as "*appropriate technological gap*"
b) Take into consideration the fact that the poorest country might and could have the absorptive capacity that is equal to *zero*
c) Introduce *the fixed cost* spent to learn the technology

The first two possibilities are interconnected with the economical picture of the host and follower country. Exists the possibility that the follower countries are far behind the leader one and they are not even interested in the industry or the industry is not relevant for them. Nowadays, there are also countries as the North Korea that has its borders closed to the world so the absorptive capacity is zero.

The third possibility is the one that concerns a more realistic activation of a new technology of a firm in a poor country. In this case, the firm has to invest in fixed cost not only to reproduce the technology but first of all to learn it maybe by travelling overseas or acquiring skilled workforces.

Naturally, the flows of know how is also influenced by the governmental policy applied in different countries. One of the main tools that can be used in terms of protecting the flows of knows how are the *intellectual property rights* (IPRs). Without in fact IPRs, there was no globalization and technological flow of know how at all. IPRs are the rights given to persons over the creations of their minds. They usually give the creator an exclusive

[18] Innovation, intellectual property and Economic growth, Christine Greenhalgh and Mark Rogers, Princeton University Press Princeton and Oxford

right over the use of his/her creation for a certain period of time (World Trade Organization).

If we say that in a particular country there is a perfectly patent protection, without any license, this would introduce a fixed lag in technology transfer (or international diffusion). If instead, there is an imperfect protection this might bring to a wider diffusion of the technology if the benefits or profits of the distribution overcome costs and obstacles to transfer it.

Another problem in the development economics is the one that takes into consideration the protection of the "*infant industries*". The infant-industry theory is the supposition that emerging domestic industries need protection against international competition until they become mature and stable (Investopedia). Theorist that defend these industries state that these industries have to be protected by government with import duties, tariffs, quotas and exchange rate controls to prevent international competitors. When the industry has reached is stable enough to compete internationally, all of these protective measures could also be removed.

1.8 What future for GVCs?

There are three different questions that could be answered to understand where is going the GVCs trend.

The first one is: *which step will be more fractionalized*?

This fractional characteristic depends on the interconnection between the gain that it could be acquired by the specialization of the step itself and the cost of coordination and risk. The specialization gain came from three key drivers: *scale economies, the learning by doing* feature of the stage and the *possibility and the ability to place the stage in a country with a high wage differential*. Instead the coordination risk came from the extra cost from managing the activities away from the other steps. The decision and the future trend for GVCs will depend on the balancing of these two point.

The second question is: *which of the stages will be the one that need more skills and technology?*

This depends on the cost and benefits that occurs when a stage will be more computerized or not.

The third and last question is: *which will be the stages more internationalized and spread worldwide?*

Also in this case, the dispersion worldwide will depend on the cost and benefits deriving from the splitting the chains. The cost of dispersion will decrease when technology improves and transportation cost decreases. Furthermore, the dispersion will depend on economic and social situation in different countries that will influence the wage gap.

2. The Soft Drink World: structure, drivers and players.

A soft drink is a drink that contains mainly carbonated water, a sweetener, and a natural or artificial flavouring[19].

The soft drinks market consists of retail sale of bottled water, carbonates, concentrates, functional drinks, juices, RTD tea and coffee, and smoothies. The Soft drink industry is an industry with a volume of 712.2 billion litres consumed per year. It is composed principally by bottled water that counts for the 42.34%, Carbonates (Sparkling beverages) for the 30.62%, Juice for the 9.99% and lastly concentrates for the 7.9%. The remaining 9.15% is representing by energy drinks, RTD (Ready-To-Drink) tea, sport drinks, RTD coffee and Asian speciality drinks[20].

In order also to better understand how much is this industry valuable could be useful to take the US market as an example of the total analysis. It counts almost for the 25% of the total market share of the Soft drink industry worldwide[21]. The Europe counts for the 26.8% and Asia counts for the 30%. The remaining 19.2% is the rest of the world[22].

The United States soft drinks market grew by 2.6% in 2014, for a value of $158.8 billion. In the 2010-2014 periods the annual growth was:

Table 3. US Soft Drink Industry Value vs Annual Growth

Years	$ Billion	%Growth
2010	145.6	
2011	148.5	1.9
2012	151.4	2.0
2013	154.8	2.2
2014	158.8	2.6
CAGR		2.2

Source: MarketLine

[19] This definition is taken by https://en.wikipedia.org/wiki/Soft_drink

[20] Euromonitor International: Global Soft Drinks 2015

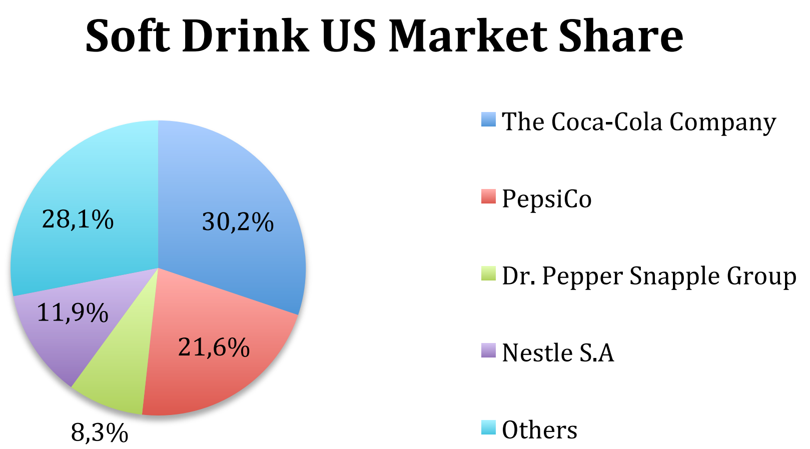
[21] Market Line Research

[22] Market Line Research

There are three large players in the soft drink world and in particular in the US Market: The Coca-Cola Company has the 30.2% of the US market share (decreased by 2 points in the last 3 years); PepsiCo has almost the 21.6%; the Dr. Pepper Snapple Group has 8.3%; the Nestle for the 11.9% and the remaining 28.1 % is own by others company (all the data are for the 2015 by market's value).

Let now see graphically the splitting in the US market:

Figure 2: The Soft Drink US Market Share



Source: IBISWORLD

Furthermore if we analyse the *Carbonates global industry* that is a sub group of the soft drink industry, the market grew by a 1.9% in 2014 and the CAGR between the 2010 and 2014 was value at 1.8%. The value that the market reached in 2014 was at $207.6 billion. In this market the Coke is another time the leader with a market share of 47.3%, PepsiCo is always the market follower with a 20.1% the Dr.Pepper with a 5% and the rest of the market (27.6%) is split between other companies.[23]

The Coca-Cola Company is the market leader worldwide as manufacturer, distributor and marketer of the soft drinks and syrup. The company has its headquarter in Atlanta, where Coke has been created by John Pemberton in 1886. It has in its portfolio has almost 500 soft drink brands between the licensed one and the one that owns. The portfolio is composed by bottled

[23] MarketLine

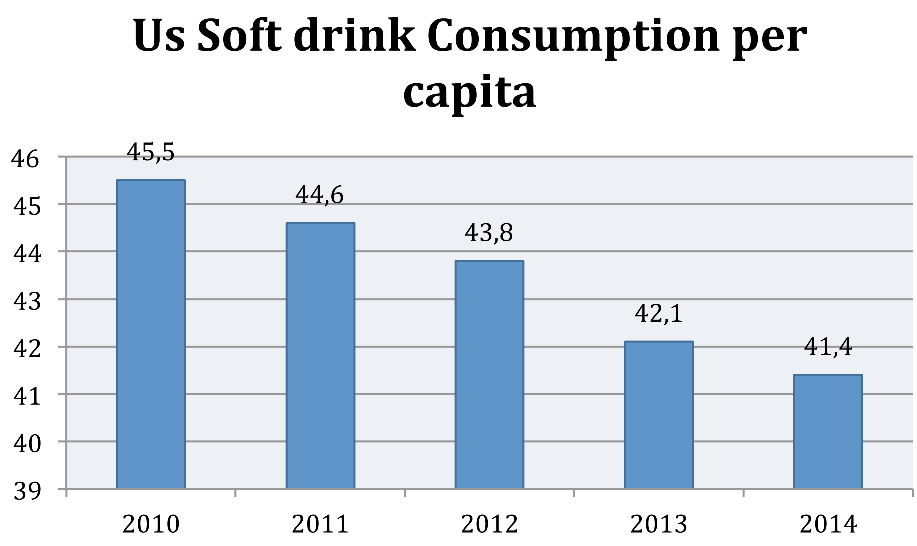
water, carbonates, RTD coffee and RTD tea, sport and energy drink. It owns four of the five most consumer soft drink in the world that are: Coca-Cola Regular, Diet Coke, Fanta and Sprite.

PepsiCo is the market follower in the industry and is headquartered in New York. PepsiCo is split into three business segments: PepsiCo Americas foods (PAF), PepsiCo Americas Beverages (PAB), and PepsiCo international (PI). There is also a further division inside the Pepsi world, in six reportable segments: Frito-Lay north America (FLNA); Quaker foods north America (QFNA); the Latin American food and snack businesses (LAF); PAB; Europe; Asia, Middle east, and Africa (AMEA). Different segments have different roles in the Pepsi world: FLNA has the marketing role for the snack part, QFNA instead is responsible for the manufacturing, marketing, and distribution of cereals, rice, pasta, and other branded products. But the most important role is the PAB Role since it has the role of selling beverage concentrates, fountain syrups, and finished goods under various Pepsi brand names. PepsiCo has 18 brands in its portfolio and it owns brands as Pepsi or market leader in the sport drink world as Gatorade. As it seen by the sub division in segments, PepsiCo is not just building a drink empire, but it is extending its portfolio overall the Fast Moving Consumer Goods Industry, in particular in the snack industry: in its portfolio the company has brands as Frito-Lay that produce the famous Lay's chips.

Last but not least, there is Dr. Pepper Snapple Group that is a brand owner, bottler and distributor of soft drinks. In terms of market share is the third one in the industry and it mainly operates in the United States, Canada and Mexico. As PepsiCo, Dr. Pepper Snapple Group is split into three different sub business units: *beverage concentrates, bottled beverages and Latin American beverages.* The distribution and bottling system of Dr. Pepper Snapple Group is consisting in using third parties bottlers and proprietary manufacturing systems in order to produce the final product. A peculiarity of this system is that the third parties bottlers are the one owns by PepsiCo and Coke. In 2014, in fact the largest customers of the Dr. Pepper Syrup were Pepsi Bottling Group, inc. (PBG) for a 25% and Coca-Cola enterprises, inc. (CCE) for the 23% of the net sales[24].

Furthermore, is important to analyse which are the main trends in the industry: taking into consideration the US market that counts for 28$ billion annually, the consumption of the soft drinks (and in particular the sweeten drinks) per capita is decreasing yearly: the consumption of soft drink decreased to 41.4 gallons[25] in 2014 from a value of 45.5 gallons in 2010[26].

Histogram 1. The US Soft drink consumption per capita



Source: Statista

Since the soda consumption is declining in the last years due to the high focus that the people are putting on a healthy nutrition and non sweeten drink, many companies are driving in a slightly different direction their business. Sodas, in fact, were blamed for contributing to obesity. The Coca-Cola Company, in particular, had to face this issue in the last ten years, and in particular from 2010-2014. The launch of Coca-Cola Zero in 2005, which

[24] Breaking Down the Chain: A Guide to the soft drink industry.

[25] 1 gallon= 3,78541 liters

[26] http://www.statista.com/statistics/306836/us-per-capita-consumption-of-soft-drinks/

pretended to be "The real Coca-Cola taste and zero calories" was the real first step in this direction. For the same reason Coke in 2015, launched Coca-Cola Life, which is the first Cola with *Stevia* extract, a natural sweetener. This is another answer to the new consumer behaviour. TCCC (The Coca-Cola Company) is also focusing more on its international foothold: in fact there are some new opportunity in the emerging markets like China or Russia that are attracting the eye of the company. This new trend has also forced in a way the company to focus more on other drinks than the core's one: Coke, in fact, invested 2.15$ billion in Monster, one of the most important brand in the energy drink world, buying the 16.7% of equity stake in 2014[27].

But is important also to understand how this whole industry works. The soft drink industry is in reality composed by two different manufacturing sub-industries: "*the flavouring syrup and concentrate manufacturing" and "soft drink manufacturing*". The supply chain is split in different steps from the syrup producer to the final consumer. The complete supply chain will be:

Figure 3. The Supply Chain in The Soft Drink Industry

Source: IBISWORLD

Since how it is composed this supply chain, it is easily to comprehend that the syrup producer (as for instance The Coca-Cola Company) has the greater power in the market, because it is the base over the complete supply chain is built on.

There are conflicting trends that are affecting this supply chain: in fact in the recent years there are companies that are implementing the "vertical

[27] http://www.forbes.com/sites/maggiemcgrath/2014/08/14/coca-cola-buys-stake-in-monster-beverage-for-2-billion/#4c1a46c4554a

integration strategy" owning the complete control on all the steps and other companies that are focusing just on the first step: the production of the syrup. Taking always as example The Coca Cola Company, it was exploiting up to 2014 in North America, a vertical integration strategy that was able to strengthen the performance. The Vertical Integration provides also to the company a stronger bargaining power with the small competitors and co-opetitors.

2.1 The Birth of The Coca-Cola Company

Coca-Cola was invented in 1886 by John Pemberton who was a pharmacist based in Atlanta, (Georgia) in the United States. The Coca Cola was, at that time, just a combination of syrup with carbonated water and Pemberton sold it as a drug for the headache and fatigue, in a local drug store just for 5cent a glass. In 1891, Pemberton sold this mixture to a businessman called Asa Candler who, in only 4 years, spread the Coca-Cola taste everywhere in the United States. He succeeded in this, due to his strong and aggressive strategy in marketed the soda.

Throughout the years Candler kept the mixture and the formula as a secret and in this way, he created the air of mystery that surrounds Coca-Cola even today. In 1899, Candler decided to sell the bottling right to two Chattanooga lawyers for one dollar since it thought that he didn't have either the time, the money and the knowledge to run a business at 360° and especially he thought that the bottling market was no so profitable. This view was contradicted by the growth of the bottling company and its market: in just 20 years, the two lawyers built a regional network of more than 1000 bottlers, locally owned and operated.

After 25 years from the acquisition, in 1916, Asa Candler sold the company to some investors, which were led by Ernest Woodruff. In 1916 he decided to turn the company into a public company. Then, passed other four years, his son Robert Woodruff a 33 years old businessman became president starting a leadership that will run for almost 60 years.

Robert Woodruff laid the foundation for one of the most important company and one of the most valued brands in the world[28]. He introduced some Coca-Cola flagships as the six-bottle cartoon, the open top cooler, vending machine and the automatic fountain dispenser. And this is not enough: he became to push and to focus really massively on advertising in fact some of the slogan of the first period are still famous nowadays as “Pause that refreshes”. Another episode that explain the focus on advertising is that some people say that was Coca-Cola that dressed Santa Claus in red for the first time in 1930, given that before that year he was used to dress in green.
Robert Woodruff was also really important because he turned the company in international one. The Coca-Cola Company and its president acquired a lot of consensus in the World War II since Woodruff promised “every man in uniform gets a bottle of Coca-Cola for five cents wherever he is and whatever it costs the company”. He kept the word. The Coca-Cola Company set up sixty-four bottling plant overseas spread overall the Europe and Asia. This could be a possible thanks to the exemptions that Coca-Cola gained for the rationing of the sugar during the wartime.
This move was from one side a patriotic move, since Woodruff really wanted to support militaries were fighting in the war, but from another side it was the opportunity to go overseas and became to all intents an international company giving also to the local people their first look to Coca-Cola products.
Throughout the years, thanks to the long-term view of its president, the company continued to expand the portfolio of its brands, acquiring Minute Maid (1960) and launching new flavoured sodas such as Fanta and Sprite.
Moreover, Even Mr Woodruff officially retired in 1955; he continued to work as Coke’s patriarch until his death in 1985. He was so important and influent so far, that influenced also some of the major corporate decisions: one of that was the successor of his successor in 1981.

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[28] “Best Global Brands 2010,” Interbrand, http://www.interbrand.com/en/best-global-brands/Best-Global- Brands-2010.aspx, accessed February 2011.
Interbrand, in 2016, valued The Coca Cola Company Brand Value at 74,843$ Million, on the third place in the worldwide ranking.

So, in 1981 begun the era of Roberto Goizueta as CEO.

The years between 1981-1997

Roberto Goizueta was a chemical engineer that from the beginning of his era started an intense cola war between Coke and all its competitors in particular PepsiCo. PepsiCo ("Pepsi") was taking over Coke's leadership in the U.S. market during the 1970s, through a massive and extreme successful taste test challenge that wanted to foster and promote Pepsi as part of a young "Pepsi Generation."

During this hard and rush battle for market share, there was an aggressive battle focusing on the price: both the company pushed for price promotions eroding margins.

Almost 50% of both company combined food store volume was sold at a discount and this brought with itself as already said a marked decrease of margins. This had also an impact on the consumer behaviour: consumers were used to switch from a brand to another and there was no brand bond or attachment. Goizueta responded by stepping up Coke's advertising spending. Always in this direction, a lot of Coke's business was sold, especially in the non-soda world, including wine and shrimp farming. In order to lower the price, The Coca Cola Company also decided to replace the sugar with high fructose corn syrup, which was 40% less expensive.

Throughout the 1980s the company introduced eleven new products, with a greater variety of packaging. One of these products, probably the most important one, was Diet Coke that was launched in 1982. In the beginning of this brand extension, the idea of put near the name of coca cola with something else that the regular red Coke, was seen as an "heresy". But this launch exceeded the overall expectations due to Goizueta and the company that shocked the market with the most expensive marketing budget in the soft drink industry's history by date (almost 100$ million in the first year). In fact, by the end of 1983, Diet Coke had become the best selling diet soft drink.

Given this enormous succeed of Diet Coke[29], Goizueta thought to change the 99-year old Coke formula. He decided to replace it in April 1985, with a

[29] In some country is called Light Coke as in Italy.

new formula. But this made arise a lot of complains due to consumers' emotional attachment to the old Coke. Goizueta said that, "We knew some people were going to be unhappy, but we could never have predicted the depth of their unhappiness." After only three months, the company decided to return to the old formula and this had also impact on the stock price that grew to level reached 12 years before.

Dealing with the international presence of the Coca Cola Company, Goizueta continued to expand the presence, in particular across Asia to Eastern Europe. With the Berlin wall fall, the Coke invested $1.5 billion in Europe to fight off the strong presence of Pepsico. Also in Europe The Company went on creating its networks of bottlers and distribution routes from the bottom up, in perfect contradiction with Pepsi that continued to rely on its existing state-owned bottlers and network. This brought Coke in 1992, having double its market share in a lot of European countries as Hungary, Poland and Czechoslovakia.

In the 1997 there was a negative event for the company since was the year in which Gozueta died after a lung and hard war against the cancer. Anyway the market value of the company was increased from $4 billion to $147 billion. The stock price of the company has also boomed growing by over 5000% becoming the most valuable brand in the world[30]. With the death of his powerful and influence leader, The Coca Cola Company faced one of its worst periods, called as The Lost Decade.

In 1997, the Company was also hit by the Asian financial crisis: the overseas countries, in fact, impacted on two thirds of its sales. Then, in 1998 another crisis hit the company: this time the crisis was place in Belgium where the Company had to face an alleged contamination fears, that forced the new CEO to take the decision to bring back a lot of the product. After it, the board and the investors questioned the ability of the Gozueta successor of taking quickly and rapid decision because this case brought a hard hit to the Coke's brand image. So they decided for a change in the leadership control. In 2000 was elected as CEO Douglas Daft. As soon as he became

[30] The Coca-Cola Company brand value was the number 1 in the Interbrand ranking since the 2012. Then Apple and Google overcame it.

CEO, Douglas Daft had to face some critical challenges: he decided to run the largest job reduction in coke's history with the goal to cut the high cost that that company was having; he also had to manage a heavily racial discrimination suit that cost around 200$ Million in a settlements. In early 2000s, the U.S. government authorities also claimed the company for making the so called "channel stuffing that is a deceptive business practice used by a company to inflate its sales and earnings figures by deliberately sending retailers along its distribution channel more products than they are able to sell to the public[31]."

In the same period there were other contamination scares in India and Europe undermining again the Coke's brand image.

In fact, these years are called *the lost decade:* this is also because the company failed in some opportunities to expand the portfolio of brands: in fact in 2000, Daft tried to buy out Quakers Oat, an American food conglomerate based in Chicago, that has as subsidiary Gatorade, the market leader in the sport drink market.[32] The price for the deal was settled to 16$ billion but some directors, right before the signature, thought that the price was too high. The Quakers Oat, at the end, was bought by the PepsiCo that gain in this way the direct control of Gatorade.[33]

Only a year later, The Company missed another great chance to make a brand extension: after two years of negotiation, Coke was not able to close the deal to buy out South Beach Beverage Co., an American brand of teas, fruit-juice blends (smoothie) and water beverages[34]. Another time, at the end was PepsiCo that acquired South Beach Beverage Co.

In 2004, The Company replaced Daft with E. Neville Isdell, a 35-year Coke veteran, called back from his retirement. He decided to hire 150 senior managers gaining in this way experience for changing a demoralized

[31] http://www.investopedia.com/terms/c/channelstuffing.asp#ixzz43Lr32lSl

[32] https://en.wikipedia.org/wiki/Quaker_Oats_Company#Drinks

[33] Dean Foust, with Nanette Byrnes, "Gone Flat," Business Week, December 20, 2004, p. 76, and Betsy Morris, "The Real Story: How Did Coca-Cola's Management Go from First-Rate to Farcical in Six Short Years?" Fortune, May 31, 2004, p. 84.

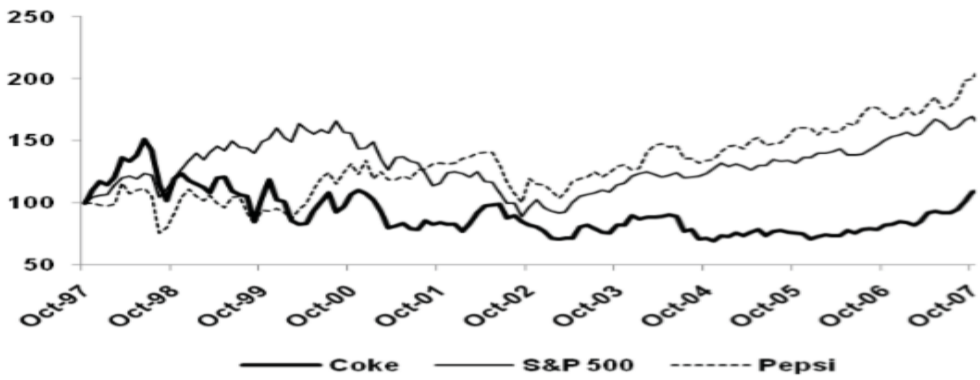
[34] https://en.wikipedia.org/wiki/SoBe

company. They created the "manifesto for a growth", a strategic 10 years plan. The main focus of this strategic plan was on the Coke's core portfolio brands: Coca-Cola, Fanta and Sprite. In the same direction, Isdell spent 400$ million trying to re-established and re-strength the brand image through a massively advertising campaign. He also decided to make an intense brand extension including include non-sparkling drinks such as enhanced water and teas. At the same time, Isdell tried to recall some of the manager most influent and most promising in the present history of the company. One of them was Muhtar Kent. Isdell described him as "He's one of the world's best networkers, and that's what you need in the business that we're in."[35] He returned to Coke in 2005 to help in strengthened the company international foothold; a year later, global sales increased 6%, the highest growth from 2000.

The End of Lost Decade

It is now interesting to see how the stock price has been changing throughout The Lost Decade:

Figure 4. Coke's Share Price Performance, Post Goizueta's Death to Isdell, 1997-2007 (October, 1997 = 100)



Source: Thomson Reuters ONE database,

[35] Jonathan Birchall, "Final Encore for a Man of the People," Financial Times, June 9, 2008.

In 2008 in fact, Kent took the place of Isdell as the Coke's CEO considering the 2008 a new beginning for the company.
Some of the most important analysis in the industry said that the major challenge for Kent was to face and figure out how to health the growth in the first and largest for non-alcoholic, ready-to-drink (NARTD) beverages in term of sales

2.2 The Coca-Cola Company: The Profile

The mission

The mission is the final aim that a company tries to reach.
The Coca-Cola Company mission is based on three different pillars:

- To refresh the world;
- To inspire moments of optimism and happiness;
- To create value and make a difference.

The Vision

The vision is the framework in which the company has to move to be able to reach the final mission or aim. With its famous winning culture, the Company, decided and developed a new vision in 2009: *the 2020 Vision*[36]. TCCC, in fact, up to 2020, has the main aim to double the revenues focusing on 6 different key areas:

- Profit, maximizing long term profits

[36] http://www.coca-colacompany.com/our-company/mission-vision-values/

- People, being one of the best place to work;

- Portfolio, trying to be a global brand that fits with the majority of needs and tastes;

- Partners, creating a strong network of partners that together creates values and excellence;

- Planet, always taking into consideration the effect on the planet;

- Productivity, being a fast and effective organization.

The mission statement of the Coca-Cola Company is:

"To refresh the world in mind, body and spirit. To inspire moments of optimism through our brands and actions. To create value and make a difference everywhere we engage.[37]"

Final Goal and Financial Performance

The Coca-Cola Company is the world's largest beverage company. The Company believes that the success depends on the ability to serve the consumer with a great variety of product that could meet their desires, needs and lifestyle choices.
With the 2020 vision the company sets some aim to reach throughout this 10 years period:

1. Increase the productivity herewith a strategy to cut the production cost;
2. Increase the revenues of 6-8% per year in order to reach the doubling final goal;

[37] http://www.coca-colacompany.com/our-company/mission-vision-values/

3. Trying to fit the on-going consumer needs, with a brand extension in the portfolio;
4. Taking always care of the sustainability cause and of the planet.

In terms on facts, Soft drink is the largest segments in the beverage industry, counting for 35% of the total industry's revenues in 2013[38]. The Coca-Cola Company is the market leader in the global beverage industry, accounting for the 17.9% of the total revenues.

In the last years, the financial performance of the company has been affecting by the changing in the consumer behaviour.

According to the financial statement of the company:

Table 4. Facts and figures of the Coca-Cola Company (value in million)

	2014	2013	2012	2011
Net Operating Revenues	45,998$	46,854$	48,017$	46,542 $
Net income attributable to shareowners of The Coca-Cola Company	7,098$	8,584$	9,019$	8,584$
Return on assets	7.8%	9.7%	10.9%	11.2%
Profit margin	15.4%	18.3%	18.8%	18.4%

Source: The Coca-Cola Company, Annual Report 2013-2014

So according to the Table 4, the net operating revenues is decreasing during the period 2012-2014 and this is mainly due to the changing behaviour of the consumers. Moreover, the net income attributable to shareowners of The Coca-Cola Company in 2013 was $8,584 million, a decrease of 5% compared to 2012 (The Coca-Cola Company, 2014). The 2% decrease in the operating revenues was due to, "unfavourable impact of foreign currency fluctuations in U.S. The unfavourable impact of changes in foreign currency

[38] MarketLine, 2013

exchange rates was primarily due to a stronger U.S. dollar compared to certain other foreign currencies, including the South African rand, Mexican peso, Brazilian real, Australian dollar and Japanese yen, which had an unfavourable impact on our Eurasia and Africa, Latin America, Asia Pacific and Bottling Investments operating segments" stated in the financial statement. (The Coca-Cola Company, 2014).

In this sector could be also useful to highlights which is the weight of the net operating revenues related to concentrate operations and finished product operations:

Table 5. Total Worldwide unit case volume split in concentrate products and finished products.

	2014	2013	2012	2011
Concentrate operations	72%	72%	70%	70%
Finished product operations	28%	28%	30%	30%
Total worldwide unit case volume	100%	100%	100%	100%

Source: The Coca-Cola Company, Annual Report 2013-2014

During the 2014 The Company has seen a steadily but slow growth in the carbonates category and instead a good performance in the still soft drink one. There are also some differences based on the considered Macro Area: in Europe, TCCC saw a negative growth by almost 3% by unit case volume, meanwhile the still beverages grew by 1%; in Latin America, instead, TCCC saw growth in still beverage. The main drivers were the bottled water, value-added diary and sport drinks. In Mexico, there were some difficulties due to a new tax, which hit the soft drink world by 1 January 2014[39].

[39] Euromonitor International: The Coca Cola Co in the Soft Drink (world)

In North America TCCC recorded a growth by 8% growth in bottled water and 4% in RTD teas. The RTD tea is considered as one of the core products for the future developing strategy for The Company.

2.3 The Coca-Cola System

The Coca-Cola Company bottling system is based on a division of functions between The Coca-Cola Company and its various bottlers that is intended to optimize the production, marketing and distribution of The Coca-Cola Company's beverages world-wide. It could also said that in the marketplace The Coca-Cola Company creates the demand throughout consumer and brand marketing instead each different bottlers in their different territories are responsible for meeting this demand.
This whole strategy is based on the “anchor bottlers”.
In the early beginning of this strategic alliance between Coca-Cola and the anchor bottler that are the major bottlers in the world that TCCC uses to penetrate markets like China, Eastern Europe and Russia, the partnership has to provide benefits for both partners. Coca-Cola provides the capital for financing the growth of the anchor bottler by taking equity in the firm and in return, Coca-Cola obtains membership on the board and the opportunity to participate in the strategic directions undertaken by the anchor bottler[40].
So, there are two different players in the Coca-Cola system: The Coca-Cola Company and the Bottlers. The Coca-Cola Company is responsible for the production of the concentrates; it has the ownership of all the brands or it has the licence to produce and sell the soft not owning drink; and at the end, it is also responsible for the consumer marketing of the products and for all the external relationship between the Company and all the third players (governments, media, so on). In order to better understand how much is important the marketing for the company, in 2010 alone, Coke spent $2.9 billion in advertising expenses. In a complementary way, the bottlers are responsible for the production of the final product from the syrup that they buy from The Coca-Cola Company; they are responsible for the selling part

[40] Corporate Cultures and Global Brands, Albrecht Rothacher, 2004.

and the trade marketing and finally also responsible for the local external relationship like with district and municipality.
So to sum up:

Figure 5. The Coca-Cola Role vs. The Bottler Role

The Coca-Cola Company

- Producing the Concentrate
- Brand property rights
- Brand patent rights and brand concentrate rights
- Consumer marketing (global marketing)
- External relationship

The Bottlers

- Production and selling of the final product;
- Buy the concentrate from TCCC
- Trade marketing
- Local external relationship

The company operates closely with almost 275 bottlers in the world and the company itself does not own the majority. These bottlers could range from a multinational pubic company to a family owned company[41].
This function division between the company and its bottlers is built on *the franchising model.*
Coke's original 1899 franchise agreement granted bottlers the right to manufacture and operate in an exclusive territory. The Franchising model, in which TCCC operates, is a way how multinational company could really reach to operate everywhere, anytime. And that is particular true with a company in the Fast Moving Consumer Goods industry that is an industry characterized by products that are sold quickly and at relatively low cost.

[41] http://www.coca-colacompany.com/sustainabilityreport/our-reporting/the-coca-cola-system.html

In this franchising agreement the price of the concentrates was fixed at the beginning even if the raw materials (ingredients) were changing. After years of litigation, between company and bottlers, bottlers finally agreed in 1978 to incorporate inflation in ingredient costs. In return, Coke promised to spend more on advertising support. The benefits from this franchising model are really numerous, for both side the Company and the Bottlers. One of the benefits for the franchisor (TCCC) is that it delegates all the problems that concerns the production and selling the product in a particular geographical area and these are delegated to a dynamic local enterprise. The local enterprise is more determined since, from all of its sales, depending their success or failure.

So, the main benefit of the franchising model is the split of risks. The company knows that it has to sacrifice some margin having this model but it is a price to pay to reduce the high exposure to the volatility of the distribution costs, spread worldwide.

Other benefits are connected with the brand image of the company. The system could be sum in the statement: "thinking global, acting local". So one of the grater advantages of the franchising model is using the regional bottlers expertise to operate. Bottlers are tied with the community and it could lead to a better production distribution. Regional bottlers may understand in a better way, local pricing strategies or promotion opportunities that are the drivers for high selling volume.

Bottlers for Coca-Cola are, with some exceptions, partially and indirectly owned and operated as independent business by the Company's one.

The major anchor bottlers are:

- Coca-Cola Amatil – Australian territories;
- Coca-Cola Refreshments – North America territories;
- Coca-Cola FEMSA – Central and Southern American territories;
- Coca-Cola HBC – Eastern European territories;
- Coca-Cola European Partners – Western European territories;
- Coca-Cola Bottler Philippines – Philippines territories;
- Coca-Cola Beverages Africa – Southern and Eastern African territories;
- Coca-Cola Icecek – South Arabian and Asian territories.

In all of these companies, TCCC owns shares in a minority stake but Coca-Cola Enterprise is directly owned and controlled.
Lets see now some of the “Anchor Bottlers” in the Coca-Cola System in a deeper way.

2.3.1 Coca-Cola HBC

The CCHBC Group was born through the combination of Hellenic Bottling Company S.A. and Coca-Cola Beverages plc on 9 August 2000.
The Hellenic Bottling Company was formed in 1969 and it was headquartered in Athens. In 1991, the Group was listed on the Athens Exchange. The first territory where it operated was Greece. After 1981, the company expanded its business through acquisition to other countries, and before the new millennium the Company was operated in 11 different countries with a 200 population targeted. In 1998, another bottler Coca-Cola Amatil Limited, which was based in Australia, decided to split and de-merged its European operations and it was created the Coca-Cola Beverages plc. The Coca-Cola Beverages plc operated almost in 12 European countries. It was listed on the London stock exchange. The major investor in the Coca-Cola Beverages plc was with a 50.5% share TCCC. In 2000, The Hellenic Bottling Company acquired Coca-Cola Beverages and the company was renamed as Coca-Cola Hellenic Bottling Company (CCHBC). Just a year later, CCHBC purchased Star Bottling Limited and LLC Coca-Cola Stavropolye Bottlers. With this acquisition, the company gained the exclusive rights to sell and distribute products of TCCC throughout the Russian Federation. In 2006 the CCHBC acquired also Lanitis Bros Public Limited (a company based in Cyprus) with a strong portfolio of products, including those of TCCC, as well as its own juice and dairy products.
Two years later, the company purchased finally 100% of Socib S.p.A. and related entities, the second largest Coca-Cola bottler in Italy. Socib was the bottler of the southern part in Italy and the deal was valued at 209.3$ million.
Here the geographic distribution of the CCHBC:

Figure 6. The CCHBC presence in the world

Source: Coca-Cola HBC website

To sum up the countries are: Greece, Cyprus, the Republic of Ireland, Northern Ireland, Austria, Switzerland and Italy as developed markets; its developing markets include Poland, the Baltic States, Czech Republic, Slovenia, Slovakia, Hungary and Croatia. Its emerging markets include Russia, Bosnia and Herzegovina, Ukraine, Belarus, Romania, Montenegro, Armenia, Moldova, the Republic of Macedonia, Bulgaria, Serbia, and Nigeria.

The Company Profile: Highlights, facts and Figures

Coca Cola HBC is one of the major bottler in the world. In term of sales, Coca Cola HBC is the leading bottler in the world with more than 2 billion unit cases. In terms of control Coca-Cola HBC is not totally independent from The Coca-Cola Company. In fact, the main shareholders are Kar-Tess Holding (a Luxembourg company) holding approximately 23.2% of our outstanding ordinary shares and **The Coca-Cola Company, which**

indirectly holds approximately 23.1% of our outstanding ordinary shares[42]. The remaining 54% is free float.

The company operates in 28 countries (developed, developing and emerging) and it reaches around 594 million people[43]. The company produces and sells brands as Coca-Cola, Coca-Cola Zero, Coca-Cola Light, Sprite and Fanta. The overall sparkling volume share in the market is almost 40%. The portfolio is also integrated with some still beverages that count for a 31% in the market. Passing to the operation side, the company has 59 plants around countries with 289 different filling lines. The company has also 292 warehouse and distribution centres[44].

So, the company operates in 28 countries, split in three sub categories: developed, developing and emerging.

The established (developed) markets count for a 30% in the company volume. The emerging ones count for a 51% and the developing for a 19%. There are different features that characterized these sub categories:

- The *established markets* have high net sales revenue per case. In these countries there is a great opportunity to push and increase the per capita consumption of sparking drinks especially in Italy (there is a consumption mean of 6 bottles in a year for a Italian consumer. It is the lowest in the group countries). The net sales revenues are 2,486€ millions that are the 39% of the total group;
- The *developing markets* have instead a low consumption of sparkling drinks per capita. In these countries the opportunity are to be seen in the retail operations since there are some changing trends. The Production and logistics operation in fact, are mostly completed. The net sales revenues are 1,092€ millions for a 17% of the total sales.
- The emerging markets are countries where there are great demographic dynamics due to a young and growing populations. There is a low GDP

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[42] http://www.coca-colahellenic.com/investorrelations/shareholderinfo/shareholderstructure

[43] http://www.coca-colahellenic.com/~/media/Files/C/CCHBC/Annual%20Reports/2015-integrated-annual-report.pdf

[44] The 2015 Integrated Annual Report

per capita and there are some opportunities for further optimisation of production and logistics. The net sales revenue are 2,769€ millions for a 43% of the total sales.

Let see now other numbers that characterized the 2015. The net profit of the company in 2015 was 280€ millions with a decrease of 15€ millions from the 2014. The company reduced also the plants for an 11%. There are 33,311 employees that are working inside the company[45]. Given that the 2015 was really a strong year for the result for the company, even if there was slightly ne profit reduction, the board of directors decided to give to the shareholders and 0.40 € dividends that was an uplift of 11.1% from the previous year.

2.3.2 Coca-Cola FEMSA

Coca-Cola FEMSA is the bottler that operates in Latin America, Mexico and Philippines. It was founded in 1991 and it is headquartered in Mexico City. In 1993 the company decided to became public on the Mexico Stock Exchange and later on, in 1998 it has been listed on the New York Stock Exchange. Between the 1994 and the 1998 there was the acquisition of all the bottlers in Argentina, giving the possibility to the company to serve also this country. In 2003 another acquisition makes the company more spread out in Latina America: the acquisition of Panamco extended the footprint to 9 Latin America countries. Only after a year, in 2004, there was the construction with The Coca-Cola Company of one of the largest PET (plastic bottle) recycling plants in the world. In 2007, there was the launch of Coca-Cola Zero in Argentina, Mexico and Brazil. Lastly, in 2013 there was the acquisition of Fluminense and Spaipa franchises in Brazil and in 2014 the purchase of 51% of Coca-Cola Bottlers Philippines, Inc[46].

[45] The 2015 Integrated Annual Report

[46] https://www.coca-colafemsa.com/about-us.html

The Company Profile: Highlights, facts and Figures

The Coca-Cola FEMSA is the second largest bottler in the world, only after Coca-Cola Enterprise. The company distributes almost the 10% of the worldwide production of the Coca-Cola products. It is a subsidiary of FEMSA that is a Mexican multinational beverage and retail company headquartered in Monterrey, Mexico[47]. Femsa owns 47.9% of the outstanding shares. The company, like also Coca-Cola HBC, is not totally independent from TCCC. The Coca-Cola Company has 28.1% of the outstanding shares of the company.[48] All the other shares, 24% of the outstanding ones, are free float.

In 2015, the company distributed 3,436 million unit cases of soft drinks. Mexico contributes with 1,785 million unit case (51.9%); Central America with 168 million unit cases (4.8%), Argentina with 234 (6.8%), Brazil with 694(20.1%), Colombia with 320 (9.3%) and Venezuela with 236(6.8%)[49].

In 2015 the company registered total revenues for 8861$ million with an increase by 3.4% from the last year.

The net income for 2015 reached a value of 600$ million that meant a decrease by 5.8% from the previous year.

The company has 63 plants spread in all the territories where operates: Argentina (2), Colombia (7), Mexico (17), Brazil (9), Philippines (19), Central America (5) and Venezuela (4). It has 97,474 employees around the world and it reaches 351 million consumers annually.

Lastly, the company has 329 distribution centres with a massively presence in the retail sector: the company products, in fact, are present 2,805,094 point of sales.

[47] https://en.wikipedia.org/wiki/FEMSA#Coca-Cola_FEMSA

[48] https://www.coca-colafemsa.com/about-us.html

[49] Coca-Cola FEMSA Annual Report 2015

2.3.3 Coca-Cola Enterprise

The Coca-Cola Enterprise is the largest bottler in the world. Born in 1986, when The Coca-Cola Company decided to spin off the company from TCCC and to merge some of the bottlers that own with two large bottlers that were for sale. In 1991, there was another merge, between The Coca-Cola Enterprise and Johnston Coca-Cola Bottling Group building one of the most important organizations in the North America. Later, in 1993, the company acquired the bottling rights in the Netherlands. During the period between 1997-1999, the company focused on the expansion through the Europe and in particular the company acquired bottling rights in Belgium, France, Great Britain and Luxemburg. But the turning point in the company history is the 2010: the company decided to sell to The Coca-Cola Company its assets in North America. The deal was valued almost 12$ billion: The Coca-Cola Company's acquisition of the assets and liabilities of CCE's North American business includes consideration of The Coca-Cola Company's current 34% equity ownership in CCE, valued at $3.4 billion and the assumption of $8.88 billion of CCE debt and all of the North American assets and liabilities.[50] With a concurrent agreement, CCE purchased the Company's bottling operations in Norway and Sweden for 822$ million. With the completion of the transaction, The Coca-Cola Company renamed the operations in North America, Coca-Cola Refreshments USA, Inc. (CCR).

In 2015, there was another milestone in the CCE history: the Coca Cola Enterprise, Coca-Cola Iberian Partners, S.A. and Coca-Cola Erfrischungsgetränke AG (a subsidiary of The Coca-Cola Company) created the Coca-Cola European Partners. CCEP became the world's largest independent Coca-Cola bottler based on net revenues. "It's a major milestone and major transaction that will benefit all parties involved," said Coke Chief Executive Muhtar Kent on a conference call.

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[50] http://ir.cokecce.com/phoenix.zhtml?c=117435&p=irol-newsArticle&ID=1395366 Financial News Rekease, The Coca-Cola Company and Coca-Cola Enterprises Strategically Advance and Strengthen Their Partnership

The CCE shareholders own 48% of the new entity, CCIP 34% and TCCC the 18%[51].

The Company Profile: Highlights, facts and Figures

Coca-Cola Enterprise is one of the major anchor bottler for TCCC. The company is responsible for almost the 8% of the total distribution of TCCC products worldwide. Coca-Cola Enterprise operates in 8 different territories: Belgium, continental France, Great Britain, Luxembourg, Monaco, The Netherlands, Norway and Sweden. Every day it serves 170 million consumers, with over 40 brands and 11,650 employees.[52]
The company in 2015 generated 7.0$ billion in net sales and sold almost 12 billion cans and bottles. The 2015 net sales were decreased from 2014 by 17% but the net income (596 $million) instead decreased by 11%[53]. This was due to a cutting price strategy in the production operations.

2.4 The Coca-Cola Company SWOT Analysis

The Coca-Cola Company is the leader manufacturer, producer and distributor in the soft drink world. In order to analyse in a better way all the points that make the Coca-Cola Company the leader in the world, could be useful to give a look to the company SWOT.

[51] http://www.reuters.com/article/coca-cola-entr-europe-idUSL5N10H37Y20150806

[52] Coca-Cola Enterprise Annual Report 2015

[53] Coca-Cola Enterprise Annual Report 2015

Table 6. SWOT analysis

Strengths	Opportunities
Strong growing brand portfolio; Global strength from the geographic presence worldwide; Strong bottling partnership;	Changing in consumer behaviour; Emerging markets (Indonesia); Increase attention to the environmental friendly product and company;
Weaknesses	**Threats**
Product quality; Reliance on carbonates;	Regulations; Rising US labour wages; Water scarcity and poor quality could increase costs;

Source: The Coca-Cola Annual Report

Strengths

Strong growing brand portfolio

Coca-Cola is one of the largest beverage manufactures globally. It is also the largest provider of sparkling beverage and juice drink in the world. It offers to its customers over 3600 products worldwide including juice 100%, waters, sport drinks and so on. The company products alone count for a 3.3% of the total beverages consumed worldwide in a day (1.9 billion products over a 57billion products worldwide)[54].

Coca-Cola has a really strong portfolio. It owns four of the five most consumed drinks in the world: Coca-Cola, Diet Coke, Sprite and Fanta. The Company portfolio includes also other brands that value together almost 16$ billion: Coca Cola Zero, Minute Maid, Minute Maid Pulpy, Dasani, Aquarius, Powerade, Schweppes, Georgia, Simply, glaceau vitaminwater, Del Valle, I LOHAS, Ayataka, BonAqua, FUZE TEA and Gold Peak. And it is not over yet: Coca-Cola owns other 16 brands that generates annually between 500$ million and 1$ billion each in retail sales[55]. This kind of brand extension and strong portfolio together with the "anchor bottler

[54] MarketLine Research

[55] The Coca-Cola company: company profile, MarketLine research

strategy" help the company to penetrate different countries in a better way and satisfying the entire consumer needs and tastes.

Global strength from the geographic presence worldwide

Coca-Cola has a geographic footprint in over 200 countries. The company has both footprint in developed markets and emerging ones. This geographic footprint is useful for the company to ensure a diversified revenue stream and reduces the business risk since this makes less volatile the company's revenues.

In 2014 the unit case volumes outside the US accounted for 81% of the company's worldwide unit case volume. Countries outside the US that had the largest unit case volumes in FY2014 were Mexico, China, Brazil and Japan, which together represented 31% of Coca-Cola's worldwide unit case volume[56].

The company is really focused on marketing strategy in developing countries to increase the brand value and recognition. In emerging markets, Coca-Cola is mainly investing in infrastructure programs in order to drive through increased access to consumers. Also the investments are more focused on the emerging market in fact in 2012 Coca-Cola announced plans to invest $300 million in Vietnam from 2013 to 2015. On the top, the company announced in 2014 the plan to invest 500$ million over the next three years in Egypt and Pakistan to build new factories.

Weaknesses

Product Quality

One of the biggest problem that the company has been having in the last years is the frequently recalls due to a poor product quality. For instance in 2014, the company recalled to the plant all the bottles with the name "Michael" on it, due to a problem in the quality of ingredients. In 2013 instead, the company recalled a19000 cases of Minute Maid diary drink in China due to their possible contamination with bacteria that can cause botulism. There was another case in China in 2012: Coca-Cola Shanxi

[56] MarketLine Research

Beverages, the company's Chinese subsidiary, said that some of its products were contaminated by chlorine while doing a routine maintenance procedure. This brought the company to give a public apology and the image was really hit in a negative way.

Reliance on carbonates

The consumer awareness of the risk due to the high sugar carbonates brought to a decline in sales of cola carbonates. But the real issue could be that the reformulation of the sweeteners and furthermore, the modification of marketing tactics for carbonates might not bring to a sales recovery.

Opportunities

Changing in consumer behaviour

In the last years, consumers increasingly switch their focus to the healthier food and drink. In 2014, according to a survey, the 70% of the consumers in the US admitted that healthfulness was one of the major characteristics that they look when buying food (this percentage grew by a 10% from 2012). A similar behaviour is also noticed in the European countries. So, Coca-Cola is trying to turn this changing behaviour into opportunities. The company offers low- or no-calorie beverage options in every market it operates in. It was also the first company to put nutrition information over its products. At the end of 2013, Coca-Cola offered reduced-, low- or no-calorie beverage options in 192 markets[57]. In 2014, the company decided also to launch the first cola that wanted to face and created a new kind of market: the launch of Coca-Cola Life. This new coke is the first "natural coke" in the history. The extract of Stevia, in fact, reduces calories by 36% respect to a Coca-Cola Regular.

Emerging markets (Indonesia)

Indonesia market is a dynamic market that might be really important to reach the company 2020 vision. In March 2015, Coca-Cola celebrated the

[57] MarketLine research

expansion of the CCAI Cikekodan Plant in Bekasi, West Java. This was the first of several investments in the county: TCCC in fact, invested 500$ million to accelerate growth in the next three to four years. This 500$ million adds on the top to all the others investments in this territory: in the last 25 years the company invested 1.2$ billion in Indonesia.

In the last three years the company has set 8 new production lines, deployed 150,000 coolers and built three mega distribution centres. The Coca-Cola Company system has been operating in Indonesia for 88 years and during currently it has:

- 16 brands;
- 10 bottling plants around the country;
- More than 200 sales and distribution centres;
- More than 520,000 large and small retail outlets week, serviced directly.

Increase attention to the environmental friendly product and company

Since the global concerns over the climate issue are increasing and widening, consumers are focusing more on that kind of products that are environmental friendly and also company that are environmental friendly. Consumers are purchasing products with recycled, biodegradable or less amount of packaging. In order to address to this need, the Coca-Cola Company in 2011, introduced products with packaging, which is made by 100% recyclable. In FY2012, the company, along with Ford Motor Company, H.J. Heinz Company, NIKE, and Procter & Gamble formed the Plant PET Technology Collaborative (PTC). The PTC works to turn all the products produced in a plant, in recyclable products. Furthermore 68% of the water used for the company products derives from community water partnership projects in more than 100 countries. On the top, in 2013, the company has also increased its efficiency in usage of water: for the 11th consecutive year the company has increased this efficiency by an 8% over the previous year[58].

[58] The Coca-Cola company: company profile, MarketLine research

Threats

Regulations

Since the company is a producer and distributor of products that have not been considerate from the majority, healthy especially for the youngest. So, several companies' products including core products (sparkling beverages) come under the direct purview of regulation authorities. The World Health Organization statistics states that in the world, there are more than 40 million children, below the age of five, those are overweight in 2013. So governments of several countries are taking measures to restrict junk food advertisements. The company in fact, together with the governments, decides to not address any kind of advertising to any children below the age of 15.

In some country the country regulations were very restricted with the junk food: the government of Dubai issued guidelines banning the sale of chocolates, crisps, soft drinks and chewing gum from every school in order to avoiding junk food and promoting safe and healthy eating among children.

Rising US labour wages

In recent times, the labour wages in US have been rising. The federal minimum wage rate in the US that was in 1998, 5.15$ per hour became in 2008 5.85$ per hour. It increased again in 2009 reaching in 2010 7.25$ per hour. There is also some federal state where the minimum wage is also higher:

- In Arizona the minimum wage rate increased from $7.9 in 2014 to $8.05 in 2015;
- In Florida, the minimum wage rate grew from $7.93 in 2014 to $8.05 in 2015;
- In Colorado, the wage increased from 8$ in 2014 to 8.24$ in 2015;
- In Alaska, passed from 7.75$ to 8.75$ in 2015;
- In Washington, from 9.32$ in 2014 to 9.47$ in 2015;

- In Oregon, from 9.1$ in 2014 to 9.25$ in 2015.[59]

2.5 Growth strategy: organic growth and acquisition

TCCC growth strategy is based both on *organic growth and acquisitions*. The Company has the final aim to double the revenues for the period between 2010-2020.

During the last years, The Company has been increased the investments in the emerging markets, meanwhile in developed markets it made some small size acquisition to strengthen the portfolio wellness.

TCCC is spending a lot of its resources on developing non-alcoholic beverages that could fit with the new consumer behaviour. People are focusing more on the healthy food, and that is the need that the company has to address.

TCCC growth strategy could be split into organic growth as launching new products or on acquisitions, acquiring and purchasing other companies.

In 2014, the company launched The Coca-Cola Life. It has the first launch since the 2006 with the Coca-Cola Zero. The Life contains stevia, which is a plant that has to replace a part of the sugar used in the carbonates. It has the 36% calories less than the Coca-Cola Regular[60].

In the last years there were some important acquisitions addressing the new trend and to improve the efficiency in the bottler operations:

- In 2013, TCCC acquired 51% stake in Coca-Cola Bottlers Philippines. Further, in the same year the company acquired a stake in Fair Oaks Farms Brands LLC that is a company in the added-value dairy;
- In 2014, TCCC purchased 12% stake in Keuring in February. Keuring is a company in the coffee capsules market;
- Again, in 2014, TCCC acquired a majority stake in National Beverage Co, which is a company that offers a selection of flavored soft drinks, juices, sparkling waters, energy drinks and nutritionally
- In the last part of 2014, the company acquired 16.7% of Monster Beverage Co, the follower company in the energy drink industry;

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[59] The Coca-Cola company: company profile, MarketLine research

[60] http://www.coca-cola.co.uk/drinks/coca-cola-life/coca-cola-life/

- In 2015 TCCC purchased a minority stake in Suja Juice, which is a company that produces organic juice and it purchased the 100% of Culiangwang, becoming in this way a major player in non-diary mil alternative drink market.[61]

2.6 Difference Between Coca-Cola and PepsiCo Business model

Comparing Coca-Cola and Pepsi business model, we might find some similarities and other differences. On the surface, the two-business model could be seen as really similar, but with a deeper analysis there are some important differences. The comparison will be done through four different key features as a diversified business model, the product portfolio, the strategy into the new markets and the efficient operation strategy[62].

A Diversified Business Model

PepsiCo is a company that is diversified not only in the beverage world but has a highly diversified portfolio with a penetration also in industry as packaging industry or food industry. At the opposite, Coca-Cola Company focuses only in the beverage industry diversifying just into this sector.

This results in different percentage in the revenues of the two companies: In PepsiCo, almost the 50% of the revenues comes from the food industry and others industry but the beverage one; in Coca-Cola, almost the 100% of the total revenues comes from the beverages that it owns[63].

Further, this means in a different exposure of the company to the beverage industry: if there is a decline of the beverage world, Coca-Cola will be more hit by this decline and PepsiCo could exploit this advantage. At the

[61] Coca-Cola Company in the soft drink, Euromonitor 2015

[62] Comparing Coca-Cola and Pepsi's Business Models (KO, PEP), by Investopedia

[63] Comparing Coca-Cola and Pepsi's Business Models (KO, PEP), by Investopedia

contrary, with this greater focus on this industry, Coca-Cola could communicate better key messages with consumers.

The Product Portfolio

In a deeper and better analysis, PepsiCo has acquired brand and product with the characteristics of being *complementary.* This could bring to an increase in revenues in the entire basket of the company since a research (by Information Resources, Inc.) shows that in America the 54% of the consumers when they buy a salty snack, they are used to buy the beverage that belongs to the same company basket. So the company focuses on giving to the consumers the possibility to drink and eat only within the company products. So, PepsiCo has created a way to bring the customers to consume and buy a product, thanks to the purchase of another product of the company itself.

Coca-Cola instead, focuses its efforts in control the beverage industry, giving up the possibility to be present in different industry, with multiple products.

The strategy into new markets

Both PepsiCo and Coca-Cola Company are multinational company that faced the issue of being in a market that is saturated. The *market saturation* in when the amount of product provided in a market place is the maximum possible. In this case, the only way to continue in a stable growth is with product an improvement that in the Fast Moving Consumer Goods Industry is not always feasible[64].

There are not so many markets (geographic speaking) in which both company has not a foothold. Both company in fact, decide to push to enter in emerging market and developing ones with other drinks as energy drinks and sports drinks. This was also a response to the fact that the sales volume

[64] Definition taking by Investopedia

of Diet Coke and Diet Pepsi were declined in the last 10 years[65]. Keeping in mind this, and taking also into account the high growth of the energy drink industry; Coca-Cola Company decides to invest in buying more stakes in Monster energy in 2014 and at a later time, some of its bottler, bought also the possibility to bottle and distribute the product. PepsiCo instead, decided to create and launch its own energy drink: Mountain Dew Kickstart.

The Efficient Operation Strategy

As we said before, both company are facing with market saturation. Due to this issue, both company are focusing their attention to improve their operations making them more efficient.
Since every large market is fully saturated, both companies have to fight in becoming more efficient to exploit the small and few remained markets not saturated. This is mandatory to turn a profit and make a profitable investment in these new and small markets. These also help the company to increase the earning per share or the price of the share also in a scenario of sales volume flat.

[65] Time Magazine Analysis between 2005 and 2015

3. Coca-Cola Bottlers: challenges of the major anchor bottlers in the world.

In this last section, I will examine in a broader and deeper way the main bottlers in the world nowadays. I will focus on the European bottlers as the new Coca-Cola Enterprise and the new group called Coca-Cola European Partners, Coca-Cola HBC (Hellenic Bottling Company) and last but not least, Coca-Cola Refreshment and at the same time what happened in the North America system to give at the end a general vision of which is the trend of the global Coca-Cola System and how it is evolving the franchising model.

3.1 Coca-Cola Refreshment

In 2010, the CEO of The Coca-Cola Company closed the largest acquisition ever: the 12 $ billion acquisition by the Coca-Cola Enterprise (CCE)[66], the largest franchised bottlers in the world, its section of the North America operations. With this acquisition, The Company controlled the 90% of the volume produced in North America.
"Our new North American structure will create an unparalleled combination of businesses, which will serve as our passport to winning in the world's largest non alcoholic ready-to-drink profit pool, " said the CEO of The Coca-Cola Group, Muhtar Kent. The buy-out of the North America Operations is one of the drivers that might lead the company to the 2020 achievement.
Kent also stated "I think there is no better system in the world than the franchise model, but it has to evolve." This strategy was the first step to revival and to strengthen the North America market.
"Everyone had lost confidence in our North America market and buying CCE was the best way to truly consolidate the fractured pieces" stated

[66] MarketWatch, http://www.marketwatch.com/story/coca-cola-buying-north-american-unit-of-cce-2010-02-25

Clyde Tuggle, senior Vice President, Chief Public Affairs and Communications Officer of The Company.

At the opposite, after the strengthen of the total North America system, will bring to a strategy to reach the total 100% of the refranchising bottling distribution and production in North America by the 2017.

Taking a step back in 2010, there was a reversal tactic with the purchase of the total operation in North America from the CCE. The deal valued at 12 $ and it was a cashless deal. TCCC assumed almost 8.9 $ billion debt of CCE and gave up 34% of the shares. TCCC also gave up its operation in Norway and Sweden to CCE. Further, TCCC gave the option to the CCE to buy out the German operation within 18-24 months from the closed deal[67]. All of these changing in the Coca-Cola system brought to a strong difference in the percentage of the volume produced by players in the world. The deal moved between the players a 8% of the total volume produced worldwide: before the deal, TCCC global bottlers produced, distributed and delivered a 80% of the total coke's products; after the deal the total volume was on a 72% of the total worldwide[68].

The deal had also a one time cost of 425 $ million and at a later time it generated in the four years after the deal, 350$ million in operational synergies. Only the first year after the deal, in fact, the synergies were valued at 150$ million. The first thing that the company exploited was the operational synergies, giving from a high cost reduction in the supply chain from the manufacturing plant to the transportation to raw ingredient purchases[69].

The two companies together owned 120 facilities worldwide. One of the first analyses came up with the fact that the company needed only the 70% of these plants. These brought to reduce in cost and to a new allocation in resources due to the consumer demographic characteristics and growth prospect. Coke made an analysis that highlighted the fact that in US there

67 Coca-Cola buying CCE North American bottling business, MarketWatch

68 Coca-Cola in 2011: In Search of a New Model, Harvard Business Case

69 This part was taking by the statement told by Kelley that led the integration process.

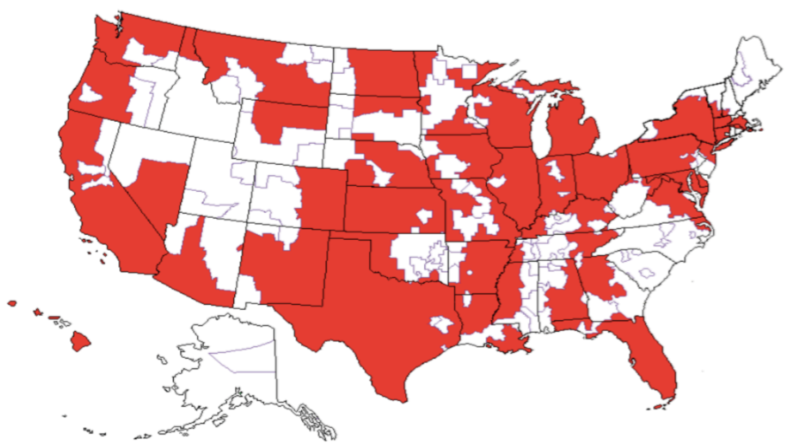
were 11 countries, representing the so-called “southern smile”, from California to Carolinas passing through Florida, which would account for 80% of the population growth by 2020. This, with also a better administrative and IT operation had brought to a decrease of the total operational cost.

Keeping on the same track, TCCC created a new entity in North America, consolidating all its operations in the Coca-Cola Refreshments (CCR). It was formed by the total North America operation plus the Minute Maid and Odwalla juice business, supply chain operations, and bottling operations in Philadelphia. This new entity had: 20$ billion in sales, 70000 employees and was under the guide of Steve Cahillane, CEO of CCR. Naturally, with this new entity, TCCC could give to the customer a complete and comprehensive customer services.

“We have our whole product portfolio represented by CCR instead of several different people servicing the same account. This is an important synergy that we knew existed but couldn’t create before,” stated Steve Cahillance. Thanks to the new focus on strengthen the North America TCCC identified additional 64,000 potential points of sales, only in Philadelphia. Due to its strong expanding, it reached to take over the lead in the city that was before in the hand of PepsiCo and turned the market in a profitable one restructuring the bottling operations in the city.

This was at the end the acquisition:

Figure 7. The Coca-Cola territory (in red) after the buy out of the CCE’s operations.



Source: The Coca-Cola Company

3.1.1. The next step in the North America System

Buying the CCE's North America operation was in the company best short-term interest. The US market still represented the 20% of the total industry volume[70]. The expectations for 2020 are so important to force TCCC to adopt a strategy ad hoc for North America. By 2020, projections called for 300 million urban American with the third growth rate worldwide. The U.S. teen population alone is forecast to grow to 31 million. The wealth in the total territory has also expected to growth: by 2020, the personal expenditure per capita is expected to reach 34,000 dollars.

Also in terms of consumption there is something new and remarkable: by 2020, is expected that 45% of the total revenues of TCCC came from the still beverage, creating a more balanced mix in the consumption.

Right after the acquisition of the CCR's total North America operations, the remaining 70 bottlers in the United Stated counted for a 10% of the total volume in the territories. So there was two different side of Coke executive: some of them thought that the company needed a more cooperative relationship with the bottlers to deal with national customers and distribution issues; others thought and highlighted the importance of bottlers' local know-how and expertise in their respective territories. One of the spokesperson that believed in keeping under the same roof all the operation was Cahillane that stated:

"Scale has always played an important part in this industry. The bigger we get, the bigger our competitive advantage."

Instead on of the major defender and sustain person to the refranchising the business was Gary Fayard, ChieF Financial Officer of TCCC that noted that "It's these relationships through local communities that have allowed Coke to build our brand momentum from the bottoms up" and then Kelly added "Bottlers' biggest value-added was in their local execution power, being able to engage with their consumers. We just couldn't market that on a national level."

There were other strong decisions that had to be taken during last years in response to some issues that the company had faced.

[70] Coca-Cola documents and MarketLine Research.

So another decision was focused on the creation of a new hot-filled beverages' production capacity: this was mainly drove by the demand trend that is going on the still beverage side. Anyway, the consumption of still beverages is still not so high as the sparkling one so the production does not need a lot of plants. For instance, vitaminwater was currently produced in 10 plants compared to around 100 plants for sparkling drinks. So, the main question depends on the fact to operate together or separately the hot and cold filled beverage productivity. Should Coke create a mega-plant that could handle both types of manufacturing plant? For example, Anheuser-Bush, the world's largest beer company, had almost 50% of the total market volume in the US with just 12 breweries in the United States. Less operating production capacity could create better inventory visibility with more efficient transportation and management costs.

The transportation costs are something that needs a better understanding since the choice of franchising or not and also the choice of decreasing or not the number of plants closely depends on them (as I mentioned in the first chapter, transportation cost are really central in the creation of a global value chain). One of the concerns when we are dealing with transportation costs is the price of the oil: if its price goes over $120 a barrel in the future, the construction of a mega plants looses its value. When CCR was built, the distribution radius was, on average, about 130 miles from points of manufacturing to points of sales. And again, reducing the number of plants and increasing that radius beyond 205 miles could start lowering profit margins[71]. Owning bottling plants means also faces with another exposure to: the commodity costs. The raw materials count for 35% of the cost of the good sold[72]. If there will be an increase in sweeteners, aluminium, and plastic these impact in the Coke's financial with an increase by 400$ million cost just in 2011. This could be difficult to recover since dealing with a company in the Fast Moving Consumer Industry, consumers are really linked with the final price.

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[71] Coca-Cola in 2011: In Search of a New Model, Harvard Business School Case

[72] John Faucher, "Coca-Cola Company," J.P. Morgan Equity Research, 2011

So, this was the strategy that Coke's took to strengthen the North America system in a period of flat growth. But this was only a short-term strategy as Tuggle explained. How should the company meet the long-term goal to double the revenues in 2020?

A lot of executive believed that TCCC has to remain local since there are more advantages in doing this. First of all, Coca-Cola brands have to remain more local since this give the connection with the community that would help the recovery of the market.

To maintain the local touch Coke could refranchise the business and break it up into a few larger bottlers by region. This would still generate significant economies of scale in manufacturing.

This was what happened in the last year.

After it reached the goal of strengthen the market, Coke decided in 2015 to refranchise 100% of company-owned North America bottling territories by the end of 2017, including all cold-fill production facilities.

On February 9, Coca-Cola Company announced that is accelerating the pace on the refranchising total North America operations. Plans include the sale of 39 remaining North America cold-fill production facilities; there are also latest Agreements that include letter of intent[73] for territories in five states.

Further, the company has also announced that is dealing with a non-binding letter of intent to refranchise Company-owned bottling operations in China to existing partners China Foods Limited, part of COFCO Limited, and Swire Beverage Holdings Limited, building on other recent global refranchising initiatives in Europe and Africa[74].

"We continue to negotiate additional agreements and we are in constant discussion with potential partners who are excited about investing in the future of the Coca-Cola system in our flagship market as well as in other markets around the world. We have made significant progress on our North

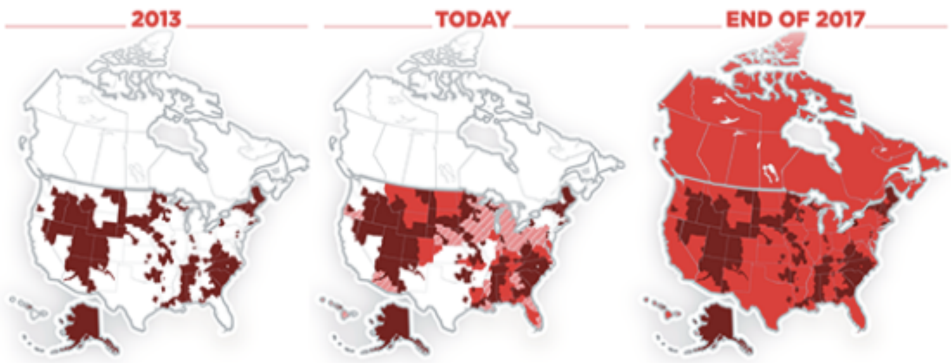
[73] Letter of intent outlines the terms of a deal and serves as an "agreement to agree" between two parties

[74] http://www.coca-colacompany.com/press-center/press-releases/the-coca-cola-company-announces-plans-to-significantly-accelerate-bottler-refranchising/

American refranchising initiatives" state Muhtar Kent, Chairman and CEO, The Coca-Cola Company.

The company would have as a cornerstone for its own growth the franchising system. The first letter of interest to refranchise the operations was issued in 2013.

Figure 8. The refranchising path (in red)



Source: The Coca-Cola Company

In the figure above, it is shown how should be the refranchising path and the goal that the company has for the 2017.

"The acceleration of our global refranchising marks a step change in our efforts to refocus The Coca-Cola Company on its core business of building strong, valuable brands and leading a system of strong bottling partners." continued Kent.

Up to this time, the Company was been able to refranchise almost 40% of the North America territories. The North America in this case presents really an opportunity to mix and exploit the features of national production efficiencies and large customer account management with local bottlers.

The remaining territories that is not so far refranchised, is supplied by the CCR.

For reaching the goal of 100% of the refranchising operations in the North America, the company also decided to sell the remaining cold-fill production facilities by the end of 2017. These plants produce almost all of the Coca-Cola brands such as Regular, Diet and Zero Coke and others beverage as Sprite. The Company decided instead to keep under the roof the hot-filled production facilities that produce Powerade and Minute Maid

juices. In these last days there were other letter of intent to continue in reaching the 2017 aim.
There are three new letters of intent that concern of[75]: with Coca-Cola Bottling Co. Consolidated (CCBCC), based in Charlotte, N.C in a deal where the CCBCC will take also the territory in portions of Ohio and West Virginia, along with a production facility in Twinsburg, Ohio; the second letter of intent is with Coca-Cola Bottling Company of Roseburg, based in Roseburg, Oregon will take the territory in the Pacific Northwest, primarily in southern Oregon and a small portion of northern California. The third and last letter of intent that is with ABARTA, Inc., based in Pittsburgh, that will take the territory in Pennsylvania.
There was other previously agreement between the Company and Coca-Cola Bottling Co. Consolidated. In this agreement, there is the Company gives up the territory in Maryland and Virginia, along with a production facility in Sandston, Va. in favour of CCBCC.
Since the franchising system is so important in the future growth of the company, the company is also focusing on the international refranchising. The company announced to enter in a non-binding letter of intent to refranchise Company-owned bottling operations in China to existing partners China Foods Limited, part of COFCO Limited, and Swire Beverage Holdings Limited.
China is the third largest market for volume and it is really important in terms of key growth for the company 2020 vision. Coca-Cola is investing in the Chinese territories almost 4 $ billion.

3.2. The Coca-Cola Enterprise and the birth of Coca-Cola European Partners plc

The Coca-Cola Enterprise is a strategic bottler partner in the Coca-Cola System. It is one of the largest independent bottler in the world. Between CCE and TCCC there is a 10 years contract of franchising for each of the territories where the company is working on that is going to end in 2020 and there is the possibility to renewal for other 10 years. The product licensed

[75] The Coca-Cola Company Press Release

by TCCC represented almost the 90% of the total volume of the CCE revenues and non-TCCC products compose the reminder.

3.2.1. CCE: the most important independent Bottler and its challenges.

The CCE markets, produces and distributes non-alcoholic beverages. It serves a market of 170 million consumers in the: Belgium, continental France, Great Britain, Luxembourg, Monaco, the Netherlands, Norway, and Sweden. In 2014, the company had 11650 employees but in 2015 due to a decrease in net sales by 1.3 $ billion, CCE had also a decrease in number of employees reaching 11500 people. In the two-year period, the company sold 12 billion bottles and can for each year.

CCE have the rights to produce and distribute various beverage brands as the one owned by Coca-Cola and other depending on the territories.

In Great Britain, CCE produces and distributes Schweppes Dr Pepper, Oasis, and Schweppes Abbey Well. All of these products are owned by Schweppes and the agreement is a ten years agreement.

The production and distribution of Schweppes has been also spread to the Netherlands in 2010 and in 2014 there was a renegotiation of the agreement that expands it to other 5 years. One of the milestones of the new agreement is the annual volume that has to be reached in each year[76].

CCE also distributes in France, Belgium, the Netherlands, and Luxembourg Capri-Sun, which is a soft drink owned by WILD GmbH & Co. KG. In Great Britain instead, the company has also the possibility to produce Capri-Sun.

The last beverage that distributes over the TCCC products, is the Monster branded beverages. CCE reached an agreement in 2008 with the Monster Beverage Corporation for the production and distribution of its products for a 20 years period[77].

[76] Form 10-K of the Coca-Cola Enterprise, issued in 2015

[77] Form 10-K of the Coca-Cola Enterprise, issued in 2014

Anyway, the business is mainly conducted under the agreement with The Coca-Cola Company. The agreement leaves just the discretion for TCCC to establish its sales prices, terms of payment, and other terms and conditions for the purchases of concentrates and syrups. All the others step in the value chain are made by CCE, from the production to the distribution and the trade marketing and customer relationship management.

The net sales of the company come from the marketing, production, and distribution of non-alcoholic beverages. The portfolio is made by some of the most important brand beverage in the world.

The top five brands by volume in its portfolio are: Coca-Cola, Diet Coke, Coca-Cola Zero, Fanta and Capri-Sun

The Coca-Cola Trademark products counted for 64% of the net sales in the company statement and this was the same for the last 4 years. Other sparkling flavours and energy drinks counted for 17% of the net sales[78].

During the 2015, there was an agreement that changed the panorama of the bottlers worldwide but especially in Europe. On 6 August, CCE entered into an agreement with TCCC, Coca-Cola Iberian Partners (CCIP[79]), the company that distributes the Coca-Cola products in the Iberian territories, and Coca-Cola Erfrischungsgetränke (CCEAG[80]), the wholly owned TCCC bottler operating in Germany creating the Coca-Cola European Partners (CCEP).

With this merger the new birth company, CCEP, serves with more than 50 bottling plants, a number of 300 consumers in 13 countries: Andorra, Belgium, France, Germany, Great Britain, Iceland, Luxembourg, Monaco, the Netherlands, Norway, Portugal, Spain, and Sweden. The CCEP is expecting to have net revenues of $12.6 billion and EBITDA of $2.1 billion.

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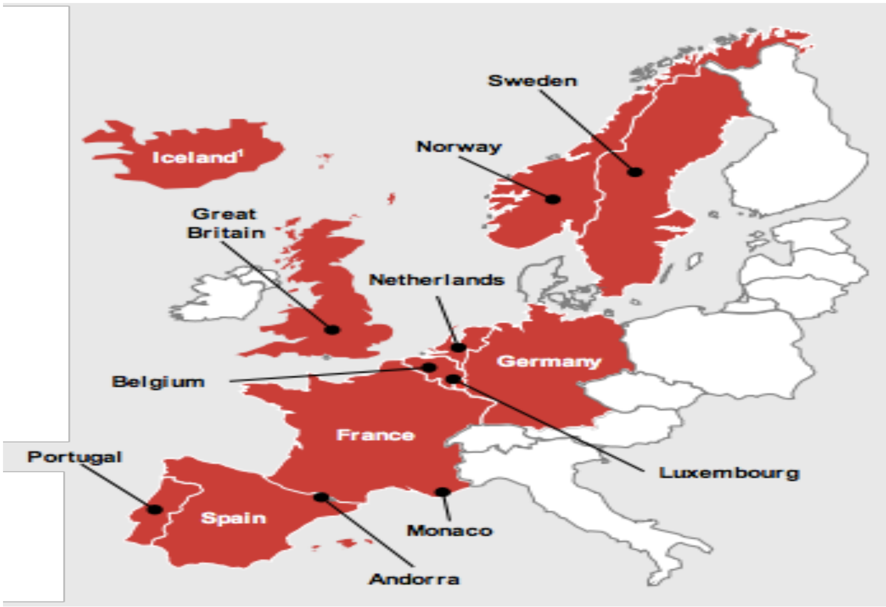
78 Form 10-K of the Coca-Cola Enterprise, issued in 2015

79 Coca-Cola Iberian Partners is a privately held Coke bottler and it has the right to produce, package and distribute the Coca-Cola products in Spain and Portugal. It has 17 brands with over 81 products. It works with 4380 employees and reaches more then 55 million of consumers.

80 Coca-Cola Erfrischungsgetränke is the largest bottler in Germany. It employs 6500 people and reaches 80 million people. It has 20 production plants with 3.8 billion litres produced in 2014.

The new group is also expected to have $1.6 billion of operating income with a volume of 2.5 billion unit cases. With this number, it is expected to become the world's largest independent Coca-Cola bottler based on net revenues[81].

Figure 9. CCEP in the world.



Source: The Coca-Cola European Partners, factsheet.

Coca-Cola European Partners is expected to generate a lot of synergies. The synergies are both in terms of operation and in terms of tax savings and supply chain benefits. The company will build and leverage on the different expertise of the different company that composed the group: there will be a combination of market knowledge of CCE, CCIP and CCEAG to better service consumers with a more consistent strategy for product development and market execution across Western Europe. In fact, each company decided to continue to operate locally and to keep focus on their specific community with a better market knowledge, experience and efficiency.

[81] The combined entity is expected to have a pro forma net debt to EBITDA ratio of approximately 3.5x in 2015 up to a 2.5x in 2017. There is also the intention to distribute approximately dividends per share of 30 -40% of the net income over time.

In terms of tax savings, the synergies are expected to generate pre-tax savings of approximately $350-375 million within three years of closing[82].
"The creation of a larger, unified Coca-Cola bottling partner in Western Europe represents an important step in our global system's evolution," stated Kent.
James Quincey, president of Coca-Cola in Europe, stated moreover: "We also think that the deal would improve the company's ability and possibility to respond more swiftly to changing consumer trends".
John Brock, Chairman of the Coca-Cola Enterprise was also really positive on this agreement in fact he stated: "The creation of Coca-Cola European Partners will build on each bottler's capabilities to create more efficient operations in their respective markets across Western Europe". And again he stated how they tried with this merger to create and bring together the world-class supply chain and sales team. The possibility is also to exploit the different strengths offered by CCIP and CCEAG to capture additional growth opportunities in each market. John Brock said also that the deal would build a better scale to serve the consumers in a more efficient way, becoming a stronger partner to The Coca-Cola Company and adding more value to their CCE's shareholders.
The transaction[83] has been structured in this way. The Coca-Cola Iberian Partners and The Coca-Cola Company will own 34% and 18% of the combined company. The CCE instead, will own 48% on a fully diluted basis. In terms of share, for each CCE shares, the CCE's shareholders received:

- One share of the Coca-Cola European Partners;
- A one-time cash payment by $14.50 per share (the total payment accounted for 3.3 $ billion, funded with new issued debt by the newly entity)

[82] Coca-Cola Enterprises, Coca-Cola Iberian Partners and Coca-Cola Erfrischungsgetränke AG to Form Coca-Cola European Partners, Press Center, The Coca-Cola Company.
[83] Coca-Cola Enterprises, Coca-Cola Iberian Partners and Coca-Cola Erfrischungsgetränke AG to Form Coca-Cola European Partners, Press Center, The Coca-Cola Company.

The Coca-Cola Company and Coca-Cola European Partners will also entering in a 10 years 10 to support the growth path of the combined entity in which the main focus is on the pricing strategy that has to be applied for each different countries.

It is important to highlight now some differences depending on the territories where the company is operating in.

In Great Britain, the NARTD market mix is split into this way: 15% water, 31% NCB, 54% CSD in terms of value; instead in terms of value, the market is split in 28% water, 21% NCB, 51% CSD. The top 5 CCE brands in the market are: Coca-Cola, Diet Coke, Coca-Cola Zero, Fanta and Schweppes. The CCE has the 30% of the NARTD market in terms of value and 25% in terms of volume.

In France, the market is in a completely different situation since the water has 30% of the market in terms of value, but the 63% in terms of volume. The CSD has the 31% by value and only the 18% by volume. Naturally, NCB has the remaining 39% by value and 19% by volume. This could a market where there is still room to improve. The CCE in fact, has also the 21% by value and 11% by volume in the NARTD market.

In Germany, the CCEAG has just the 18% by value and the 10% by volume in the NARTD market. This is the market where a bottler has the lowest market share but with the highest annual volume produce in the group: 680 million of unit cases. Germany is one of the greatest challenges of the new entity. It is, in fact, in the top 5 countries in terms of consumption per capita but in 2014 the carbonate sales were not increasing and the trend for 2015 is not promising. Moreover, Coca-Cola, in Germany, has a successful portfolio with bottler water. Bottler waters are not a fundamental part in the CCE portfolio: so another challenges is in reaching to include and enhance water and non-CSD brands in the future moves in Germany with the low expertise of CCE[84].

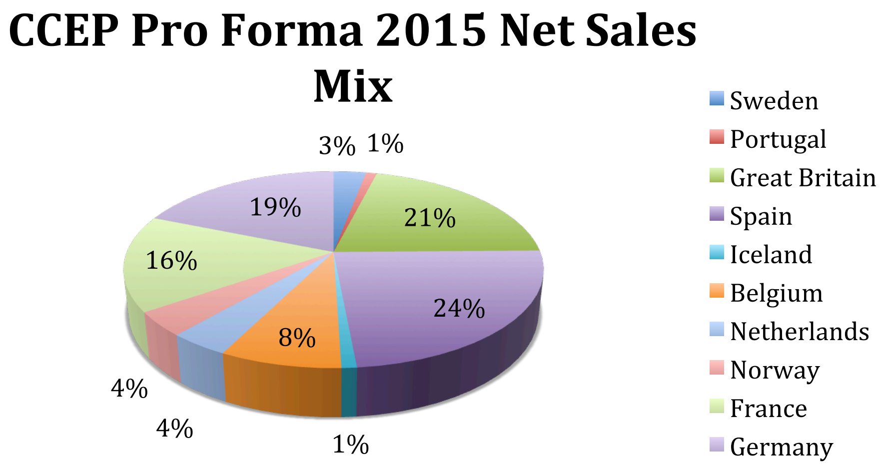
In Norway, there is an opposite situation since the company has the 35% by value and the 32% by volume in the market. The market mix is also significant: 66% of CSD, 24% of NCB, 10% of water by value and 66% of

[84] Three-Way Bottling Merger Creates Coca-Cola European Partners plc by Howard Telford, August 6th, 2015

CSD, 22% of NCB and 12% of water by volume but with the lowest annual volume produced: just 50 million of unit cases[85].

On the top, is also really important to comprehend how much a country counts for the total revenues in the overall group.

Figure 10. CCEP Pro Forma 2015 Net Sales Mix



Source: 2015 CCEP Investor Factsheet

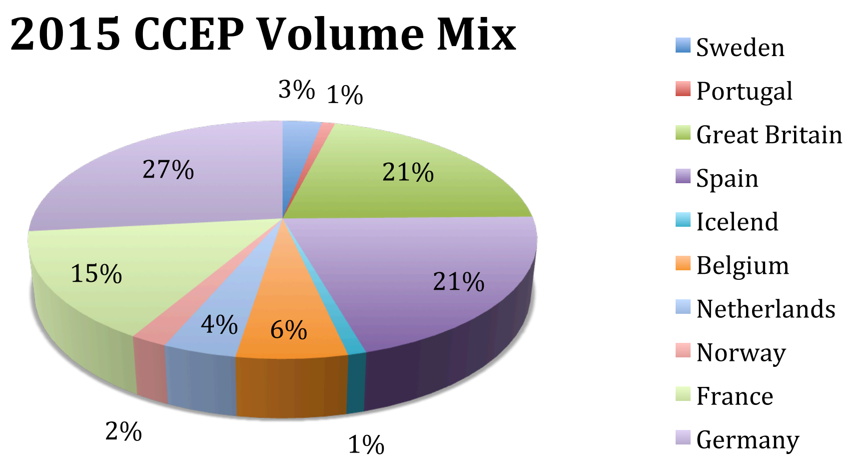
As it possible to see from the figure above, the country that counted for the most is the Spain with a 24% following the Great Britain with a 21% and Germany with a 19%. Germany is also the country where the group is less strong in terms of market share. So it is really important for the entire group, to focus more on this country and as already Brock stated to exploit the expertise and knowledge of other companies as CCIP and CCE to help the CCEAG in reaching the objective of owning more market shares.

Connected with the net sales mix, there is the volume mix, which could get how much Germany, in particular, is important in the future path and moves of the overall group[86].

[85] 2015 CCEP Investor Factsheet

[86] 2015 CCEP Investor Factsheet

Figure 11. CCEP 2015 Volume Mix



Source: 2015 CCEP Investor Factsheet

So, Germany counted for the 27% of the overall volume of the group and it is the greatest value. Another time this data shows how much is it important to improve in terms of efficiency and presence, the German market.

On the top of all of these data, one of the major challenges of this merger is to reach a more balanced mix between the three companies, in terms of packaging, channel and consumption type.

The starting point is quite good but with some exception. Within the channel mix, in the CCE territories the 60% of the channel is made by home[87] channel and 38% by cold[88] channel; in the CCIP territories, the 57% of the channel mix is made by home channel and 43% by cold channel; in the CCEG instead there is a 64% made by home channel and a 36% by cold channel.

Within instead the package mixes, there are some differences more consistent. The 55% of the total production of CCE is made in PET (plastic bottle), 27% in cans and 18% in glass. The total production of CCIP instead is split in: 54% in PET, 29% in cans and 17% in glass. The CCEAG package mix instead is different: the 82% is made in PET, 15% is made In

[87] Customers who generally sell beverages for later consumption (at ambient temperature).

[88] Customers who generally sell beverages for immediate consumption (at chilled temperature).

glass and just the 3% is made in cans. In the consumption type mix, 65% of the CCE consumption is future[89], 35% is immediate[90]. Instead the 56% of the CCIP consumption is future and C44% is immediate. Another time, the CCEAG consumption is somehow different and has to be analysed in a deeper way: the 70% is future and 30% is immediate and this is also really inter-connected with the package and channel mixes.

3.3. Coca-Cola HBC

Coca-Cola HBC (Hellenic Bottling Company) is the leader bottler company in terms of volume with a 2 billion unit cases, or 50 billion servings, annually.

The EBIT during the last year was valued at 418 $ million with an increase of 57 $ million by 2014. The comparable EBIT was 473 $ million with over 48 $ million respected to the previous year.

The net profit, instead, for the 2015 was 280 $ million, decreasing by 15 $ million from the 2014.

One of the most important data in 2015 was the positive growth also in the established markets for the first time in five years, meaning that the strategy applied so far was effective. The growth rate reached 2.6%.

The 2015-year was so good in performance that the board decided to propose a 0.40 dividend per share that means 11% uplift compared with the 2014 dividend.

3.3.1. Coca-Cola HBC Strategy

Coca-Cola HBC based all of its strategies on the company core values and the four strategic priorities. The core values "to play to win" with The Coca-Cola Company, as the company said are: excellence, learning, caring for our people, and performing as one, winning with customers and authenticity.

[89] Generally packaging greater than 1 litres and multi-serves packs.

[90] Generally packaging lower than 1 litres (single-serve) and fountain.

Together with these values, the company is based on four strategic imperatives that are: community trust, consumer relevance, and customer preference and cost leadership[91].

Community trust is a milestone in a business that has to be done primarily in the local environment. In fact, the sustainable growth of the company is really connected with the sustainable growth of the community itself. The company is really committed in creating trust in the community since it thinks that the real value of the business is in creating value for a better world. For instance, in Italy everything is made in the country: from the bottling parts, to the distribution and after sale service the company gives the job to over 2000 people in the territory. The total business of Coca-Cola HBC in fact, with all of the partnership and agreed jobs with other entity generates almost the 0,05 % of the total GDP of the country[92]. The company in fact generates over than 340 € million in taxation for the Italian government (0,18% of the total taxation), and there are over 70000 people in economics terms, that depends entirely or just in part from the Coca-Cola HBC revenues. This is an example of how much the company is strictly linked with the belonging territories.

The consumer relevance depends instead in the capacity and ability of anticipating and meeting the needs of customers. In this way, Coca-Cola HBC is always looking for opportunity to serve better its consumers with enlarging brands not only in the Carbonated Soft Drink world but also in the Energy Drink Market and also in the Water Market. Taking always as example Coca-Cola HBC Italy, in December 2015 there was an agreement between CCHBC and Monster Beverage. The agreement gives the opportunity to distribute for CCHBC the Monster beverages as Monster Rehab, or Absolutely Zero, placing side by side this energy drink with another energy drink already distributed by CCHBC: Burn. Laura Bonelli, energy manager at Coca Cola HBC stated: " the introduction of the Monster Family has the goal to enlarge and consolidate our positioning in the energy

91 Play to Win Strategic Framework, Coca-Cola HBC website

92 L'impatto economico e occupazionale di Coca-Cola in Italia: un valore aggiunto per il paese, Bocconi SDA.

drink market, that registered only in the last year a growth by 11% with a continuing positive trend."

This is also connected with the third imperatives that the company has in terms of strategy: customer preferences. The customer preference sometimes could be confused with the consumer relevance. But with the consumer relevance the company is saying the consumer is placed in the centre of the business and its needs have to be meet paying attention on its preferences. The preference is in terms of distribution channel, pricing, packaging and so on. The 97.6% of all orders in 2015 were delivered in full, on time and accurately invoiced (DIFOTAI). This means building true collaboration and partnerships that create sustainable value and profitable growth for the business and the customers across all key channels. The consumer satisfaction is is 82% for key accounts and 66% for traditional outlets. Keeping looking to the CCHBC Italy, the company is trying to build a new business model for particular client as the one that based their business model on the EDLP (everyday low price[93]) model. Companies that use this kind of pricing strategy are becoming established more and more in Italian territories.

The last but not least of the four priorities is the cost leadership. The effective cost management is an essential part of the company. It is one of the milestone through the company wants to reach the 2020 goal. It means creating a lean, cost efficient, borderless organisation that could capture future opportunities with maximum efficiency. In the past years there were a lot of actions to make the value chain of the company the less expensive: it established a new business organization, the Coca-Cola Hellenic Business Services Organisation (BSO), that will standardise, centralise, coordinate and simplify certain Finance and Human Resources processes to improve productivity and provide important transactional services at a lower cost. It has done an optimization of the infrastructure and furthermore it has also done an excellence job in delivering excellence throughout logistic.

[93] Everyday Low Price is a pricing strategy where company promises to consumer a low price without waiting for sale price events or comparison shopping (Everyday Low Price, Wikipedia)

Related to these four strategic priorities there are also other five strategic targets: win the marketplace, grow value ahead of volume, focus on cost, generate free cash flow and act responsibility.

Win the marketplace means that the company wants to increase the market share in a sustainable way.

The growth value ahead of volume means to focus more on the marginality of the product than on the volume sold. The company is already the biggest and most important bottler in the world in terms of volume sold: it has now to transform this volume in real money, increasing the marginality or decreasing the expenditure.

The focus on cost is placed right next to the focus on growth value. The Company is really focus on improve everything it does from the manufacturing part to the logistic one.

The company tries also to strengthen the free cash flow generated with tightly control of the working capital and the appropriate level of CAPEX spent for the growth of the business.

Lastly, acting responsibility. The company is so committed in creating business in a sustainable and green way that it measures the direct and indirect greenhouse gas emissions from our operations.

The CCHBC based its performance success analysing 8 different key performance indicators (KPI's): volume, net sales revenues (NSR), Net sales revenue generated per case, category share, OpEx (Operating expenses) as percentage of net sales revenue, Comparable EBIT, Free cash flow, ROIC (return on invested capital).

In 2015, in terms of volume, the company has produced 2055 million of unit case[94] with an increase by previous year of 52 million[95]. The company struggled in the developing market since the challenge in Russia but there was a return to growth in the established one that drove the overall growth. The 2016 is expected to keep on this track since the right response in the developed market.

In term of net sales, the company experienced a slightly decreased due to the adverse currency movements. The FX-neutral net sales revenue per case

[94] A unit case represents 5.678 litres.

[95] Coca-Cola HBC 2015 integrated annual report.

shows in fact an increase for the fifth consecutive year but for just a merely 0.3%. The FX-neutral is the ratio that does not take into consideration the currency movement. For the 2016 the company expects to increase prices in countries with currency depreciation and with a continuously improvement in packaging, channel and category mix to meet the consumer demand.
In terms of costs the ratio of OpEx (Operating expenses) as percentage of net sales revenue, in 2015 remains stable to a 29.2%. The Comparable EBIT instead increased due to the volume growth and the leverage that it brings.
In 2016 the company is expecting to continue in this trend since there will be a continuously focus on cost as firm discipline and the profitability will benefit from operational leverage as volumes grow, and our focus on pricing of our products.
The company in 2015 generated also an increase in free cash flow reaching 412 $ million. The results of the free cash flow depended on a reduction in working capital by a triple digit value. The ROIC has also grown in 2015 reaching a ratio of 8.8%. For the 2016, since the company is expecting to decrease the working capital and improve the profitability and capital expenditure management, this should ensure good free cash flow generation.

3.3.2. Established Markets vs Developing Markets vs Emerging Markets

Coca-Cola HBC operates in 28 countries in 3 different continents. It is the exclusive bottler of The Coca-Cola Company brands in all of its territories, with the only exception of Sicily in Italy, where there is a different kind of bottler called Sibeg.
There is no single market that dominates the whole group: the largest one in its portfolio in fact is Russia that counts for 18% of the total volume in 2015[96].
The fact that the company is spread both in emerging country than in established ones, offered the possibility to be more balanced and less dependent on a single country. CCHBC divided its territories in three different sub categories: established markets, developing markets and

[96] Emerging markets, Coca-Cola HBC website

emerging markets. The division is made considering different measures as: socio-economic similarities, GDP per capita, per capita consumption of sparkling beverages and the state of development of the local beverage market. Each different subcategory has different features and the company is trying to fit its strategy to the different socio-economic condition in each country.

Figure 12. Established Markets vs Developing Markets vs Emerging Markets

Source: Coca-Cola HBC website

The established markets are: Austria, Cyprus, Greece, Italy, Northern Ireland, Republic of Ireland and Switzerland.
The developing markets are: Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.
The emerging markets are: Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Nigeria, Romania, Russian Federation, Serbia and Ukraine.
The sum of the total potential consumer that the company could reach is 593 million people[97].
Established markets count for 30% of the total volume of the group. Developing markets count for 19% and emerging ones count for 51% of the

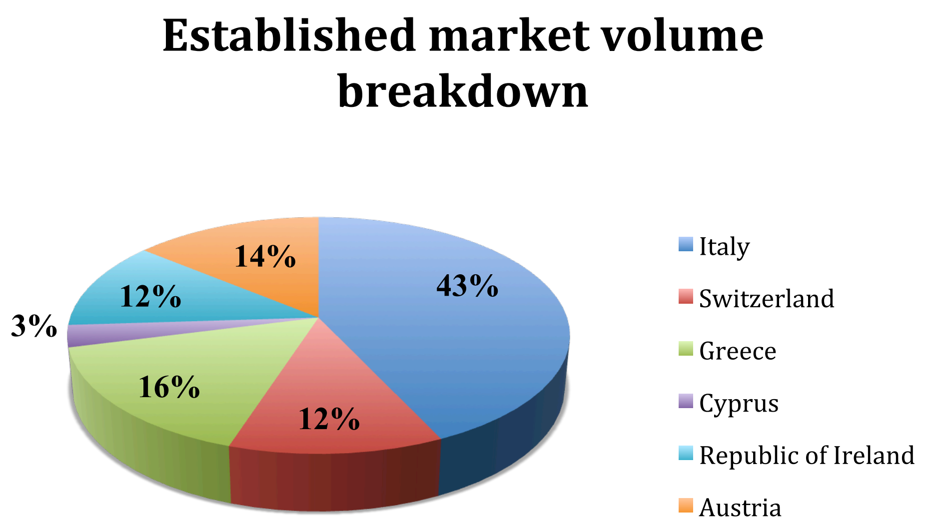
[97] Markets overview, The Coca-Cola HBC website

total volume. In terms of net sales revenue instead: established markets have a higher percentage since they count for a 39% of the total, developing markets for just a 17% and finally, emerging ones for the 44% left. Doing the comparable EBIT breakdown instead, the distance between the group is more flat: established markets count for 42%, emerging markets for 37% and developing ones for 21%[98].

Established Markets

Countries in this sub categories share a similarities in political and economic stability and a high levels of GDP per capita.
The total population that could be served reached 91 million people in 2015. It is a tough market since the preferences of the people are becoming more and more sophisticated.
In the figure below, it could be seen as each country counts for the total volume of the sub-group.

Figure 13. Established markets volume breakdown



Source: Established Markets, Coca-Cola HBC website

98 Markets overview, The Coca-Cola HBC website

The company is keeping focus on delivering affordability trying to improve the efficiency through initiatives of optimization and restructuring.

For the full year of 2015 the volume of unit cases sold is increased by 1 % respected to the previous year. The combined growth in the water category in Italy and Greece overcome the decline in Ireland. The net sales revenue increased by 1.5% compared to the 2014, due mainly to the increase in volume sold and to the positive impact of the exchange rate (Swiss Franc) managed the negative results in terms of channel mix and category[99].

The comparable operating profit grew for 35.5% in 2015 to 199$ million.

In Italy, there was the first sales volume increase in the last five years: sales volume grew by 2%. In this country, the company tried to focus on delivering the right product in the right packaging at the right price for every occasion. The company sparkling beverages registered an increase in the sales by 2%, driven by Coke's family, Fanta and Sprite. Also the still beverages grew, driven by the 4% rate of the water. During the 2015, there was also the celebration of the 100th year of the iconic Coca-Cola contour bottle. With this events, the company tried to push the single serve packaging where both company and retailer have the highest marginality: thanks to the marketing campaign and to the focus of the company, the company reached a growth of 4% in single serve packs.

In Greece, there was an increase in sales for the second year consecutively. In 2015, the sales grew by another 1% after the 2% growth in 2014. The positive performance was mainly driven by the high sales in water and juice category. The Coca-Cola Zero sales increased by 7% and the energy drink also grew by a 2.4%. All of these data are particular good considering the fact that the country is in a slowly general growth after the fragile landscape that characterized it in the last years.

In Switzerland, there was a stable situation in 2015. The water category continued to growth due to the improvement of efficiency in distribution and the positive performance in the Coke's family trademark balanced the negative results in other categories.

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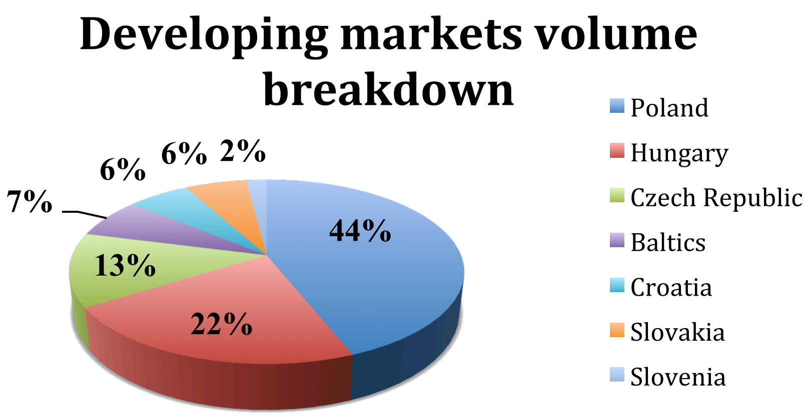
[99] Coca-Cola HBC 2015 integrated annual report

In Ireland, there was an overall decreased in the sales volume by 2%, with the only exception of water and energy drink. The Coca-Cola Zero grew by 6% but the overall sparkling beverage segment declined.

Developing Markets

The developing countries are the one with market-oriented economies[100]. These countries are characterized with a lower disposable income per capita than established countries and they are also more influenced by the economic volatility. The total population that could be served reached 77 million people in 2015. Up to 2008 in these countries, the macroeconomic condition was favourable to show a high growth rate in all the categories but after the economic crisis, countries were marked by a dramatic decline of economic growth rates. Consumers in this market pay more attention to the price rather than the established market consumers and so Coca-Cola HBC finds competitors mainly in the non-premium brands.
In the figure below, it could be seen as each country counts for the total volume of the sub-group.

Figure 14. Developing markets volume breakdown



Source: Coca-Cola HBC Website

100 An economy that operates by voluntary exchange in a free market and is not planned or controlled by a central authority, definition by Farlex.

In the developing markets, throughout the 2015, the unit cases volume sold rise by 5.7%. Mainly the sparkling beverages drove this growth rate and all the developing countries experience an increase in volume during the whole year.
The net sales revenues increase by 3.6% in 2015 and this increased was due to the positive currency impact and the improvement of volume and category mix.
Also the comparable EBIT increased: the EBIT value reached the value of 99$ million with an increase of 70.3%.
In Poland, the sales volume increased by 7% driven by sparkling beverage sales increased. Still beverages and water grew due to the h plain and flavoured water.
In Hungary, sales increased by 8%. All the sparkling beverages grew by 8%, with a peak of 30% of Coca-Cola Zero.
In Czech Republic, the sales volume increased by 4% overall. The fast growing category was juice category with an increase by 14%. Furthermore, in 2015, the Coca-Cola HBC plant in Prague achieved the Gold certification in European Water Stewardship Standard, which recognises s excellence at every stage of water management; in fact there was a reduction by 13% of water usage during the 2015[101].

Emerging Markets

These are the country with the lowest GDP per capita in the whole group. So, here the consumer attention for the price is even higher than the one in developing markets.
In these countries, the company focuses more on specialised revenue growth management, packaging and promotional programmes.
The total population that could be served within this sub group is 426 million people.
The social and economic condition in these countries are really fragile: these were the first victims of the financial crises in 2008 and so far, there are no solid performance that shows a stable recovery.

[101] Coca-Cola HBC 2015 integrated annual report

In the figure below, it could be seen as each country counts for the total volume of the sub-group.

Figure 15. Emerging markets volume breakdown

Source: Coca-Cola HBC Website

The overall strategy in the emerging markets is focused on consumer relevance, affordability and execution excellence, together with continuing developments in cost efficiency and cross-border synergies.

During the 2015 there was strong performance by Romania, Nigeria and Ukraine that overcome the slowdown in Russia. The overall results in the emerging markets showed a growth by 2.5%. Due to the negative impact of exchange rates and channel mix deterioration, the net sales revenues declined by 7.9% but the currency-neutral net sales revenue per case grew by 4.0% showing that the negative results was mainly due to the exchange rate[102].

Emerging markets showed also a 20.1% decline in the operating profit to 175.8 $ million.

In Russia, the sales declined by 6%. The launch of Coca-Cola Zero did not have the expected results: the Coca-Cola Trademark overall declined by 2%. Juice category grew by 14%, but this was not sufficient to overcome the decline in the sparkling beverage category.

102 Coca-Cola HBC 2015 integrated annual report

In Nigeria, the sales volume grew by 10%. This growth was driven by all the marketing campaigns and by the juice category that grew by 19%.
In Romania, there was a growth rate of 11% in 2015 after a decline by 6% in the previous year. This growth was driven by the introduction of another package in the Coca-Cola Trademark: the 1.25 litre.
In Ukraine, Coca-Cola HBC achieved a 14% growth rate after a decline in 2014. The landscape remained really unstable and the company tried to overcome it focusing on promotional initiatives.

3.3.3. The Challenges in Emerging Markets

Coca-Cola HBC is continuously focusing on the emerging markets where there is a still big room for improvement. Emerging markets are the only one that in the last year were declining in terms of total sales volume. This was driven by the negative situation in Russia that consists in the biggest and most important country within the emerging ones.
In Russia Coca-Cola HBC had faced some challenges that could be turn in opportunities. The first challenge was the launch of Coca-Cola Zero. In this case there was a strong and strictly relationship between Coca-Cola HBC and The Coca-Cola Company.
Coca-Cola Zero Launch happened after an intense market research in the country. "We know that our customers are active people who lead modern lifestyles," said Ivchenko, Coca-Cola Russia marketing manager. Coca-Cola is launched as a part of the "One Brand Voice" the new marketing strategy applied worldwide[103].
"The potential for Coca-Cola Zero is massive. Despite the difficult economic circumstances the country has faced in recent years, sales of Coca-Cola increased 4 times in Russia," stated Zoran Vucinic, business unit president for Coca-Cola in Russia, Ukraine and Belarus. Coca-Cola Zero had also to substitute the need of a no calories coke since the Diet Coke will no be produced in Russia. The Coca-Cola Zero has the expectation to meet a new demand: 82% of the Russian consumers stated that the amount of the calories in foods is important for them. Coca-Cola expected that replacing

[103] Coca-Cola Zero Hits Russian Shelves, The Moscow Times, June 2015

Diet Coke, Coca-Cola Zero could have a positive impact on sales volume. “By 2018, we expect that the share of Zero will increase to 10 percent. Since in 2014 the share of Diet Coke in total Russian sales increased by 2%" stated Kravtsov, Coca-Cola spokesman. PepsiCo, the main competitor in the country, which has already two low calories drinks, also points out the importance of the low calories market[104].

Another challenge in Russia is the launch of the new business services organization, which is a sector that has to improve the efficiency and productivity in the company while creating a self-service culture.

The importance of Coca-Cola HBC in the country and the attachment to the social condition of the community where it operates, it has been showed in the last year when there was a meeting between general managers of the top companies discussing about ways to overcome the crisis[105]. The Coca-Cola System in Russia has invested throughout the years more than 4 $ billion and the development of the Russian Economy it is impossible without the company investments.

“As a long-term investor in the Russian economy we believe that transparent and predictable business climate is key to sustainable economic development. Business community salutes the position of the President of Russia who in his annual Assignment to the Parliament confirmed that it’s important not to “worsen the state of taxpayers" by enacting legislation levying new taxes by 2018. We appreciate a dialogue with the Russian government as we continue developing our business and community investments in the country,” stated Stefanos Vafeidis, general manager of Coca-Cola HBC Russia.

Nigeria is another country where Coca-Cola HBC is continuously to focus on. In 2015, Coca-Cola HBC announced new commitments in carbon and water sustainability. Coca-Cola HBC is trying to reduce by 30% the water use by 2020 compared to 2010 and also reduce carbon emission by 50%.

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104 Coca-Cola Zero hits Russian market as soft drinks giant seeks new growth, Russia beyond the headlines, May 2015

105 General managers of major companies discussed ways of overcoming crisis, Coca-Cola HBC Press Release, February 2016

“Here in Nigeria, we will be contributing to meeting these targets by implementing water and energy reduction programmes in all our plants,” said Morgan, Acting Head of Public Affairs and Communications, Nigerian Bottling Company (NBC) Limited.

Another challenge is on developing new customers in Nigeria. Up to 2020, Coca-Cola HBC is helping 40 entrepreneurs investing in small distribution, which could help, in the future, to improve the business efficiency.

On January 30, 2016, The Coca-Cola Company bought 40% shares in in Nigeria’s largest juice and dairy company, Chi Limited, Tropical General Investment (TGI) Group. It could be estimated as a 400$ million acquisition, the biggest acquisition overseas since 2012. In a press release after the deal, The Coca-Cola Company announced the fact that it is going to acquire the remaining 60% in the next three years. This could be a new challenge for Coca-Cola HBC Nigeria since there is an agreement on the table that permits the company to distribute also Chi’s products.

4. Conclusion

A global controlled bottling system or a totally franchising independent one?

The year 2015 was a fundamental one for the whole Coca-Cola System.
It begun with the characteristics of being a transition year since the company started with plans to reinvigorate growth and increase profitability but immediately these plans brought results.
Kathy Waller CFO of TCCC said: “These results are thanks to the focus and determination of people all across our system. We continue to be in a period of significant change as we refocus on our core business of building brands and leading strong bottlers around the world”. The first positive result of the year was the 2% growth of the global price/mix in the last year. Anyway, the most important news in the year was the plan to reaccelerate the refranchising the American system. With this acceleration the company was moving from an 18% of the total production produced by company owned entity, to a 3% of the total volume. This naturally has brought a changing point of view for the whole growth strategy: the company is coming to the historical model with some adjustments. The global trend in The Coca-Cola system is going in the direction of a total franchising system but with a small control of the company. Coca-Cola HBC and Coca-Cola European Partners are the perfect example of what is happening and which is the trend: Coca-Cola HBC is an independent company that is listed on London Stock Exchange. The 23.1 % of its shares are hold by The Coca-Cola Company, which in this way could have also a higher influence in the decision of the CCHBC. Talking instead of Coca-Cola Enterprise, which is a total independent company, we can also see that the trend is actually the same: to exploit the positive features of the franchising model and of a global value chain, always keeping a sort of indirect control, the company entered in a merger with Coca-Cola Enterprise and Coca-Cola Iberian Partners creating Coca-Cola European Partners. This is with the main aim to have the possibility to have the world to speak in the major decision of its bottlers.

The Coca-Cola Company knows that its production strength laid in its widespread bottling capability. This started with the aim to have "a system company-owned or controlled bottling and distribution operations as well as independently owned bottling partners, distributors, wholesalers and retailers[106]". Nowadays this aim is going in the direction of having a network of controlled, often in a minority way, bottling partners. The Company in fact, also says that it has the world's largest "beverage distribution system".

In this way Coca-Cola is able to meet both the features of its system: a wide degree of freedom for the bottler keeping anyway the possibility to influence the major decision of its bottlers. The company knows that the franchising model is based on a win-win model but in this way it could avoid any possible decisions that could weaken Coca-Cola image and could push to have the same vision with its bottlers. Furthermore, in this way TCCC could also continued to exploit the positive features of a franchising model without the fear of any damages to the Coke's images and exploiting the connection with the local community wide spreading the risk of being in just one territory.

Furthermore, a franchising system that is modified in this way decreases the volatility that affects multinational company operations: there is none country or entity in which TCCC owns shares, that counts in an excessive way for the total Coca-Cola Company investments.

Examples of these are all over the world. Also in the North America territories there are exploiting something like this: up to 2009, The Coca-Cola Company was buying out all the bottlers in the North America territories to strengthen operations since the performance was not so good. The company bought out some bottlers and then it merged them in just one entity, Coca-Cola Refreshment. Then, the company decided to refranchise the operations, aiming to reach a 100% franchising system up to 2017. This decision brought its results in 2015: the North America operations saw particular strong results. It had the highest performance since 2012, driving

[106] Coca-Cola Co – The SWOT Analysis, in soft drinks (world), Euromonitor International, March 2013

4% top line growth for the full year[107]. This growth showed that the strategy to focus on small packaging where margin are higher is also paying off. The purchase transaction increased by 3% outpacing 1% unit case volume growth and this means that people are buying smaller packaging than before.

Another example of this trend is what happened with Coca-Cola Bottlers Philippines. The company was born in 1981, with a joint venture between San Miguel Corporation (70%) and The Coca-Cola Company (30%)[108]. In 2007 The Coca-Cola Company acquired the total control of the Coca-Cola Bottlers Philippines. In 2010, the company decided to invest 1$ billion to in the next five years to expand and strengthen the business. In 2013 Coca-Cola FEMSA, one of the major anchor bottler of TCCC which is controlled by FEMSA for 47.9%, TCCC for 28.1% and the remaining is free float, acquired the 51% stake to take over the control. The Coca-Cola Company also in this time, kept a minority stake in its bottler.

In 2012, four of the major bottlers in Japan decided to marge in a new public listed company called Coca-Cola East Japan. The Coca-Cola Company owned at the beginning in this new entity the 33% of the total shares. Nowadays TCCC decrease its power to a direct 13.1% control by Coca-Cola Japan Ltd and an indirect control by its subsidiaries, European Refreshments and The Coca Cola Export Co. by another 18.1%[109].

At the end, there are still rooms for Coca-Cola to improve its performance and the trend that is characterizing the system will help Coke's to take all the opportunity exploiting the franchising model in the best way possible.

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107 Behind the numbers: CFO Kathy Waller breaks down Coke's 2015 results, Feb 9, 2016.

108 FEMSA in the Philippines: discover relevant information of FEMSA in your country, FEMSA Website.

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Synthesis

Global Value Chain

A value chain is the sum of activities and actions made to go through the production of a product. It includes all the stages from the conception's one to the manufacturing, final use and beyond. There are some situations where different steps might not take place in the same countries: in this situation, we are dealing with a *global value chain.* So, the global value chain is an evolution of the idea of value chain.

The global value chain is a phenomenon that is really connected with three ingredients that characterized the evolution of economies and societies: *globalization, technological changes* and *political changes.*

The globalization is the increase of *interdependence of economies* across the world. This definition takes into account a lot of economics and social activities as: migration, finance and technology in addition to trades. One of the key pillars of the globalization is the increase of the *international financial flows*. These flows could be split into two different sub categories: the *foreign direct investment* (FDI) which are all the inward flows that go directly toward investment in factories, machines, and businesses; the other sub category is *portfolio investment*, which are all the international inward investment that are (principally) made in shares and bonds.

The first theory on trades is the theory of comparative advantage (Ricardo, 1817). As the name said, this theory states that countries have to specialize in single product or industry and then they might trade between each other. For instance, taking Portugal and England as countries: Portugal has to focus on wine and specializes on it, instead England in textile and then they can trade. In the mind of Ricardo, this theory should explain why and how different countries have to engage in international trade. This theory was born after the first industrial revolution that brought to the First Globalization Wave (19^{th} century) that was characterized by the steam engine: the steam engine enabled the possibility to cluster the production line in some places but the economy of scale was the characteristics that made it profitable. Transportation costs got reduced and became medium, so it was made possible for production to cluster in some places and cities grew because of the concentration of economic activities (Manchester was the point of convergence for the textile industry, Detroit for the car one and so on). There were 5 factors that characterized the First Globalization Wave: North industrialization and South de-industrialization, growth took off, divergence/convergence in income, boom in migration and production clustered.

In 1980, there was another milestone that marked the birth and development of global value chain and more in general an enormous evolution on how the firms invested in different countries: in 1980, the *Second Globalization wave* took place. This wave happened thanks to the *ICT revolution* (information, communication and technology). The ICT revolution made it possible to coordinate and control a lot of activities at distance but it was the wage differential in different countries that made it profitable.

So it is important to highlight the differences between this second wave from its predecessor: the first one was mainly across the developed economies, instead the second took also place in *emerging and developing countries*.

In this context, the basic and traditional theories about international trade lost their value: there were no more countries that specialized itself in a different industry or product but countries both export and import a lot of same goods and the debate was mainly on headquarters vs. manufacturing countries.

One of the greatest issues in splitting the value chain concern how and where locates the different stages. There are two forces that push for deciding to split or not the value chain. The *Agglomeration forces* are that kind of forces that push firms to keep the entire product stages together. They encourage firms to keep the steps clustered. There are different agglomeration forces: *spill overs, coordination needs, trade cost* (trade costs might be ambiguous). *The Dispersion forces* are all the situations and conditions that push firms to separate the stages in a value chain locating different steps in different places. There are mainly two dispersion forces: *wage gap and specialization.*

But which are the stages mainly off-shored?

Typically, all the pure production phases are off-shored. This is mainly due to the fact that stages are off-shored in last developing countries or

emerging ones, exploiting the huge wage differential that characterized these territories from the developed ones.
At the opposite, the pre fabrication stages as research and development, design and the post fabrication as customer services and marketing are the one not off-shored. This is because in these stages there is the most part of the value creation and firms are usually not support the idea to uproot their origins. Naturally, this division in off shoring just some of the value chain steps produced a difference also between countries. This ends with the division between *Headquarter and Factory economies.*
A result of globalization was moreover the increase of international investment flows. There are two kinds on international flow: *FDI* and *the portfolio investment.* A FDI is an investment that has a "*lasting interest in the entity*". FDIs could be sub-divided into: *horizontal or vertical FDI and inward or outward FDI.* The horizontal FDI occurs when company invests in another country in the same industry in which operates domestically. In Vertical FDI, it invests in another country, in another industry.
The Inward FDI is an investment made by a company buying or investing in national company, considering the investments with the eyes of the host economy. An outward FDI is considering the same investment with the eyes of the home country.Coca-Cola works in an international franchising (horizontal FDI in different firms) way since some of its bottlers are independent company with the licence to produce and sell cokes.

Soft Drink Industry

A soft drink is a drink that contains mainly carbonated water, a sweetener, and a natural or artificial flavouring. The soft drinks market consists of retail sale of bottled water, carbonates, concentrates, functional drinks, juices, RTD tea and coffee, and smoothies. The soft drink industry is an industry with a volume of 712.2 billion litres consumed per year. It is composed principally by bottled water that counts for the 42.34%, Carbonates (Sparkling beverages) for the 30.62%, Juice for the 9.99% and lastly concentrates for the 7.9%. The remaining 9.15% is representing by energy drinks, RTD (Ready-To-Drink) tea, sport drinks, and RTD coffee and Asian speciality drinks. In order to better understand how much is this industry valuable could be useful to take the US market as an example of the total analysis. It counts almost for the 25% of the total market share of the soft drink industry worldwide. There are three large players in the soft drink world and in particular in the US Market: The Coca-Cola Company has the 30.2% of the US market share (decreased by 2 points in the last 3 years); PepsiCo has almost the 21.6%; the Dr. Pepper Snapple Group has 8.3%; the Nestle for the 11.9% and the remaining 28.1 % is own by others company (all the data are for the 2015 by market's value).

The Coca-Cola Company is the market leader worldwide as manufacturer, distributor and marketer of the soft drinks and syrup. It owns four of the five most consumer soft drink in the world that are: Coca-Cola Regular, Diet Coke, Fanta and Sprite.

PepsiCo is the market follower in the industry and is headquartered in New York. PepsiCo is split into three business segments: PepsiCo Americas foods (PAF), PepsiCo Americas Beverages (PAB), and PepsiCo international (PI). PepsiCo has 18 brands in its portfolio and it owns brands as Pepsi or market leader in the sport drink world as Gatorade. As it seen by the sub division in segments, PepsiCo is not just building a drink empire, but it is extending its portfolio overall the Fast Moving Consumer Goods Industry, in particular in the snack industry: in its portfolio the company has brands as Frito-Lay that produce the famous Lay's chips.

Dr. Pepper Snapple Group that is a brand owner, bottler and distributor of soft drinks. In terms of market share is the third one in the industry and it mainly operates in the United States, Canada and Mexico. As PepsiCo, Dr. Pepper Snapple Group is split into three different sub business units: *beverage concentrates, bottled beverages and Latin American beverages.* The distribution and bottling system of Dr. Pepper Snapple Group is consisting in using third parties bottlers and proprietary manufacturing systems in order to produce the final product. A peculiarity of this system is that the third parties bottlers are the one owns by PepsiCo and Coke.

Now, is important to understand how this whole industry works. The soft drink industry is in reality composed by two different manufacturing sub-industries: "*the flavouring syrup and concentrate manufacturing" and "soft drink manufacturing*". The supply chain is split in different steps from the syrup producer to the final consumer: syrup producer, bottler, distributor, merchant and final consumer.

The Coca-Cola Company

The mission of The Coca-Cola Company is based on 3 pillars: to refresh the world, to inspire moments of optimism and happiness, to create value and make a difference. The vision is the framework in which the company has to move to be able to reach the final mission or aim. With its famous winning culture, The Company, decided and developed a new vision in 2009: *the 2020 Vision*. TCCC, in fact, up to 2020, has the main aim to double the revenues focusing on 6 different key areas: *profit*, maximizing long term profits; *people*, being one of the best place to work; *portfolio*, trying to be a global brand that fits with the majority of needs and tastes; *partners*, creating a strong network of partners that together creates values and excellence; *planet*, always taking into consideration the effect on the planet; *productivity*, being a fast and effective organization.

In the last years, the financial performance of the company has been affecting by the changing in the consumer behaviour. The net operating revenues is decreasing during the period 2012-2014 and this is mainly due to the changing behaviour of the consumers. Moreover, the net income attributable to shareowners of The Coca-Cola Company in 2013 was $8,584 million, a decrease of 5% compared to 2012 (The Coca-Cola Company, 2014).

The Coca-Cola Company System

The Coca-Cola Company bottling system is based on a division of functions between The Coca-Cola Company and its various bottlers that is intended to optimize the production, marketing and distribution of The Coca-Cola Company's beverages worldwide. It could also said that in the marketplace The Coca-Cola Company creates the demand throughout consumer and brand marketing instead each different bottlers in their territories are responsible for meeting this demand.

This whole strategy is based on the “anchor bottlers”. So, there are two players in The Coca-Cola System: The Company and the bottlers. The company that is responsible for producing the concentrate, for brand property rights, for brand patent rights and brand concentrate rights, for consumer marketing (global marketing) and finally for external relationship; bottlers which are responsible for production and selling of the final product, for buying the concentrate from TCCC, for trade marketing local and external local relationship.

This function division between the company and its bottlers is built on *the franchising model.* The Franchising model, in which TCCC operates, is a way how multinational company could really reach to operate everywhere, anytime. That is particular true with a company in the Fast Moving Consumer Goods industry that is an industry characterized by products that are sold quickly and at relatively low cost. So, the main benefit of the franchising model is the split of risks. The company knows that it has to sacrifice some margin having this model but it is a price to pay to reduce the high exposure to the volatility of the distribution costs, spread worldwide.

Other benefits are connected with the brand image of the company. The system could be sum in the statement: “thinking global, acting local”. So one of the grater advantages of the franchising model is using the regional bottlers expertise to operate. Bottlers are tied with the community and it could lead to a better production distribution. Regional bottlers may understand in a better way, local pricing strategies or promotion opportunities that are the drivers for high selling volume.

Bottlers for Coca-Cola are, with some exceptions, partially and indirectly owned and they operated as independent business by the Company’s one.

The major anchor bottlers are: Coca-Cola Amatil (Australian territories); Coca-Cola Refreshments (North America territories); Coca-Cola FEMSA (Central and Southern American territories); Coca-Cola HBC (Eastern European territories); Coca-Cola European Partners (Western European territories);

Coca-Cola Refreshments and the North American territories

In 2010, the CEO of The Coca-Cola Company closed the largest acquisition ever: the 12 $ billion acquisition by the Coca-Cola Enterprise (CCE), the largest franchised bottlers in the world, its section of the North America operations. With this acquisition, The Company controlled the 90% of the volume produced in North America. TCCC created a new entity in North America, consolidating all its operations in the Coca-Cola Refreshments (CCR). It was formed by the total North America operation plus the Minute Maid and Odwalla juice business, supply chain operations, and bottling operations in Philadelphia. This new entity had: 20$ billion in sales, 70000 employees and was under the guide of Steve Cahillane, CEO of CCR. Naturally, with this new entity, TCCC could give to the customer a complete and comprehensive customer services. Buying the CCE's North America operations was in the company best short-term interest. The US market still represented the 20% of the total industry volume. The expectations for 2020 are so important to force TCCC to adopt a strategy ad hoc for North America.

Right after the acquisition of the CCR's total North America operations, the remaining 70 bottlers in the United Stated counted for a 10% of the total volume in the territories.

After it reached the goal of strengthen the market, Coke decided in 2015 to refranchise 100% of company-owned North America bottling territories by the end of 2017, including all cold-fill production facilities. On February 9, Coca-Cola Company announced that is accelerating the pace on the refranchising total North America operations. "The acceleration of our global refranchising marks a step change in our efforts to refocus The Coca-Cola Company on its core business of building strong, valuable brands and leading a system of strong bottling partners." continued Kent, CEO of TCCC. For reaching the goal of 100% of the refranchising operations in the North America, the company also decided to sell the remaining cold-fill production facilities by the end of 2017. These plants produce almost all of the Coca-Cola brands such as Regular, Diet and Zero Coke and others beverage as Sprite.

Coca-Cola Enterprise and the Western European territories

The Coca-Cola Enterprise is a strategic bottler partner in the Coca-Cola System. It is one of the largest independent bottler in the world.

Between CCE and TCCC there is a 10 years contract of franchising for each of the territories where the company is working on that is going to end in 2020 and there is the possibility to renewal for other 10 years. The CCE markets, produces and distributes non-alcoholic beverages. It serves a market of 170 million consumers in the: Belgium, continental France, Great Britain, Luxembourg, Monaco, the Netherlands, Norway, and Sweden. In 2014, the company had 11650 employees but in 2015 due to a decrease in net sales by 1.3 $ billion, CCE had also a decrease in number of employees reaching 11500 people. In the two-year period, the company sold 12 billion bottles and can for each year.
The business is mainly conducted under the agreement with The Coca-Cola Company. The agreement leaves just the discretion for TCCC to establish its sales prices, terms of payment, and other terms and conditions for the purchases of concentrates and syrups. All the others step in the value chain are made by CCE, from the production to the distribution and the trade marketing and customer relationship management.
During the 2015, there was an agreement that changed the panorama of the bottlers worldwide but especially in Europe. On 6 August, CCE entered into an agreement with TCCC, Coca-Cola Iberian Partners (CCIP), the company that distributes the Coca-Cola products in the Iberian territories, and Coca-Cola Erfrischungsgetränke (CCEAG), the wholly owned TCCC bottler operating in Germany creating the Coca-Cola European Partners (CCEP).
With this merger the new birth company, CCEP, serves with more than 50 bottling plants, a number of 300 consumers in 13 countries: Andorra, Belgium, France, Germany, Great Britain, Iceland, Luxembourg, Monaco, the Netherlands, Norway, Portugal, Spain, and Sweden. The CCEP is expecting to have net revenues of $12.6 billion and EBITDA of $2.1 billion. Coca-Cola European Partners is expected to generate a lot of synergies. The synergies are both in terms of operation and in terms of tax savings and supply chain benefits. The transaction has been structured in this way. The Coca-Cola Iberian Partners and The Coca-Cola Company will own 34% and 18% of the combined company. The CCE instead, will own 48% on a fully diluted basis.

The Coca-Cola Company and Coca-Cola European Partners will also entering in a 10 years 10 to support the growth path of the combined entity in which the main focus is on the pricing strategy that has to be applied for each different countries.

Coca-Cola HBC and the Eastern European territories

Coca-Cola HBC (Hellenic Bottling Company) is the leader bottler company in terms of volume with a 2 billion unit cases, or 50 billion servings, annually.

Coca-Cola HBC based all of its strategies on the company core values and the four strategic priorities. The core values "to play to win" with The Coca-Cola Company, as the company said are: excellence, learning, caring for our people, winning with customers and authenticity and performing as one. Together with these values, the company is based on four strategic imperatives that are: community trust, consumer relevance, and customer preference and cost leadership.

Coca-Cola HBC operates in 28 countries in 3 different continents. It is the exclusive bottler of The Coca-Cola Company brands in all of its territories, with the only exception of Sicily in Italy, where there is a different bottler called Sibeg.

There is no single market that dominates the whole group: the largest one in its portfolio in fact is Russia that counts for 18% of the total volume in 2015. The fact that the company is spread both in emerging country than in established ones, offered the possibility to be more balanced and less dependent on a single country. CCHBC divided its territories in three different sub categories: established markets, developing markets and emerging markets. The division is made considering different measures as: socio-economic similarities, GDP per capita, per capita consumption of sparkling beverages and the state of development of the local beverage market. Each different subcategory has different features and the company is trying to fit its strategy to the different socio-economic condition in each country. Established markets count for 30% of the total volume of the group. Developing markets count for 19% and emerging ones count for 51% of the total volume. In terms of net sales revenue instead: established markets have a higher percentage since they count for a 39% of the total, developing markets for just a 17% and finally, emerging ones for the 44% left. Doing the comparable EBIT breakdown instead, the distance between the group is more flat: established markets count for 42%, emerging markets for 37% and developing ones for 21%.

Conclusion

The year 2015 was a fundamental one for the whole Coca-Cola System.

It begun with the characteristics of being a transition year since the company started with plans to reinvigorate growth and increase profitability but immediately these plans brought results.

Kathy Waller CFO of TCCC said: “These results are thanks to the focus and determination of people all across our system. We continue to be in a period of significant change as we refocus on our core business of building brands and leading strong bottlers around the world”. The first positive result of the year was the 2% growth of the global price/mix in the last year. Anyway, the most important news in the year was the plan to reaccelerate the refranchising the American system. With this acceleration the company was moving from an 18% of the total production produced by company owned entity, to a 3% of the total volume. This naturally has brought a changing point of view for the whole growth strategy: the company is coming to the historical model with some adjustments. The global trend in The Coca-Cola system is going in the direction of a total franchising system but with a small control of the company. Coca-Cola HBC and Coca-Cola European Partners are the perfect example of what is happening and which is the trend: Coca-Cola HBC is an independent company that is listed on London Stock Exchange. The 23.1% of its shares are hold by The Coca-Cola Company, which in this way could have also a higher influence in the decision of the CCHBC. Talking instead of Coca-Cola Enterprise, which is a total independent company, we can also see that the trend is actually the same: to exploit the positive features of the franchising model and of a global value chain, always keeping a sort of indirect control, the company entered in a merger with Coca-Cola Enterprise and Coca-Cola Iberian Partners creating Coca-Cola European Partners. This is with the main aim to have the possibility to have the world to speak in the major decision of its bottlers.

The Coca-Cola Company knows that its production strength laid in its widespread bottling capability. This started with the aim to have "a system company-owned or controlled bottling and distribution operations as well as independently owned bottling partners, distributors, wholesalers and retailers". Nowadays this aim is going in the direction of having a network of controlled (indirectly), often in a minority way, bottling partners. The Company in fact, also says that it has the world's largest "beverage distribution system".

In this way Coca-Cola is able to meet both the features of its system: a wide degree of freedom for the bottler keeping anyway the possibility to influence the major decision of its bottlers. The company knows that the franchising model is based on a win-win model but in this way it could avoid any possible decisions that could weaken Coca-Cola image and could push to have the same vision with its bottlers. Furthermore, in this way TCCC could also continued to exploit the positive features of a franchising model without the fear of any damages to the Coke's images and exploiting the connection with the local community wide spreading the risk of being in just one territory.

Furthermore, a franchising system that is modified in this way decreases the volatility that affects multinational company operations: there is none country or entity in which TCCC owns shares, that counts in an excessive way for the total Coca-Cola Company investments.

Examples of these are all over the world. Also in the North America territories there are exploiting something like this: up to 2009, The Coca-Cola Company was buying out all the bottlers in the North America territories to strengthen operations since the performance was not so good. The company bought out some bottlers and then it merged them in just one entity, Coca-Cola Refreshment. Then, the company decided to refranchise the operations, aiming to reach a 100% franchising system up to 2017. This decision brought its results in 2015: the North America operations saw particular strong results. It had the highest performance since 2012, driving 4% top line growth for the full year. This growth showed that the strategy to focus on small packaging where margin are higher is also paying off. The purchase transaction increased by 3% outpacing 1% unit case volume growth and this means that people are buying smaller packaging than before.

Another example of this trend is what happened with Coca-Cola Bottlers Philippines. The company was born in 1981, with a joint venture between San Miguel Corporation (70%) and The Coca-Cola Company (30%). In 2007 The Coca-Cola Company acquired the total control of the Coca-Cola Bottlers Philippines. In 2010, the company decided to invest 1$ billion to in the next five years to expand and strengthen the business. In 2013 Coca-Cola FEMSA, one of the major anchor bottler of TCCC which is controlled by FEMSA for 47.9%, TCCC for 28.1% and the remaining is free float, acquired the 51% stake to take over the control. The Coca-Cola Company also in this time, kept a minority stake in the bottler.

In 2012, four of the major bottlers in Japan decided to marge in a new public listed company called Coca-Cola East Japan. The Coca-Cola Company owned at the beginning in this new entity the 33% of the total shares. Nowadays TCCC decrease its power to a direct 13.1% control by Coca-Cola Japan Ltd and an indirect control by its subsidiaries, European Refreshments and The Coca Cola Export Co. by another 18.1%.

At the end, there are still rooms for Coca-Cola to improve its performance and the trend that is characterizing the system will help Coke's to take all the opportunity exploiting the franchising model in the best way possible.