The Coca-Cola Company: Re-Architecting the Global Beverage Giant

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Topic: Strategic Management, Corporate Strategy, Global Business

Related topics: Business Models, Pricing Strategy, Mergers & Acquisitions, Portfolio Management

Industry: Beverages

Source: Strategy & Finance

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Setting: Atlanta, Georgia
Information cutoff: 20 February 2025, following publication of the FY2024 annual report
Case revised: 3 October 2026; historical information cutoff retained
Management perspective: James Quincey, Chairman and CEO at the cutoff
Case convention: The decision assignment is hypothetical. Company events and financial results are historical; this case does not describe a private management meeting. S1

Executive Summary & Decision

By early 2025, Coca-Cola had reshaped the ownership of major bottling operations while investing beyond its core sparkling beverages. Its system combined brand ownership, concentrate production, company-owned operations and independent bottling partners. Management's challenge was to decide where the next increment of investment could earn attractive returns without weakening execution or financial flexibility. S1

FY2024 results presented a mixed picture. Revenue reached $47.1 billion, but reported operating income fell to $10.0 billion. The company reported 12% organic revenue growth and a 30.0% comparable operating margin; its GAAP operating margin was 21.2%. These are different measures, not interchangeable descriptions of profitability. S2

Two acquisition-related charges complicated the picture: a $760 million BODYARMOR trademark impairment and a $3.109 billion remeasurement of fairlife contingent consideration. Separately, a payment related to the IRS dispute reduced operating cash flow. Commercial growth, accounting earnings and cash available for investment therefore required separate analysis. S1 (Notes 12, 17 and 18)

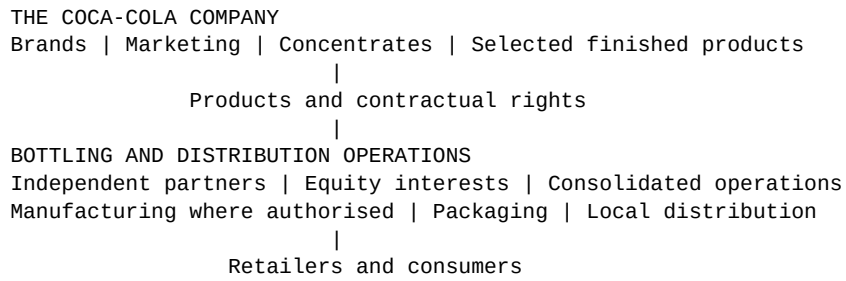
Decision assignment: Advise management on how to allocate its next increment of capital among core-brand and route-to-market investment, expansion into adjacent beverage categories, and balance-sheet resilience or shareholder distributions. Identify what must be true for the preferred option to create value, and which evidence would change the recommendation. Any budget or forecast introduced by students must be labelled as an assumption.

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1. Company Background & the Coca-Cola System

Brand Ownership, Manufacturing and Distribution

Coca-Cola's business includes concentrate operations and finished-product operations. In the concentrate model, bottlers combine concentrate or syrup with other inputs, package beverages and distribute them. The parent also sells finished products and retains ownership interests in some bottling operations. The division of responsibilities varies across markets and contracts. S1 (Business)



Simplified diagram. It does not imply that all bottlers manufacture every product, or that all physical assets sit outside the parent company.

Incidence Pricing and Partner Incentives

The annual report describes incidence-based concentrate pricing as reflecting factors including bottler pricing, channel and package mix. It should not be reduced to one universal fixed percentage of net wholesale revenue. Revenue sharing can improve alignment, but parties still bear different costs and investment obligations. Higher parent income does not necessarily establish an attractive bottler return. S1 (Business)

Historical agreements illustrate the distinction. Some U.S. refranchising transactions transferred distribution while the parent retained manufacturing. Certain arrangements also included recurring territory-right payments, separate from product-supply economics. These examples show why transaction scope matters; they are not universal terms for every market. S3 (Note 2)

Strategic issue: Brand strength and local execution can complement one another, but contracts must also support maintenance, capacity, launches and service quality. Students should consider both parties' incentives when judging the system.

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2. Refranchising and the Total Beverage Strategy

A. Changing the Ownership of Bottling Operations

The Bottling Investments organisation was formed effective 1 January 2006. In February 2016, Coca-Cola announced an accelerated plan to complete refranchising of company-owned North American territories by the end of 2017. It announced completion of its U.S. refranchising programme in October 2017. These milestones do not mean that Coca-Cola had divested every bottling operation worldwide: the FY2024 report still includes consolidated bottling businesses. S4; S5; S6; S1

Transferring a bottling business changes the parent's reporting perimeter. Revenue previously earned from finished-product sales may leave consolidation, while product-supply receipts and other contractual cash flows remain. A reduction in reported revenue can consequently accompany an increase in the remaining business's margin.

That accounting effect does not, on its own, establish value creation. The relevant comparison includes after-tax proceeds, earnings relinquished, retained manufacturing and overhead, transition costs, future cash flows and the investment capacity of partners. ROIC also requires a consistent definition of invested capital; the financial exhibit below does not establish a causal ROIC improvement.

B. Growth Across Beverage Categories

By the cutoff, Coca-Cola's portfolio extended across sparkling beverages; water, sports and other hydration products; juice, dairy and plant-based drinks; and coffee and tea. The portfolio included Coca-Cola, Sprite, Fanta, BODYARMOR, fairlife and Costa, among other brands. S1 (Business)

The strategic question is whether the parent can transfer useful capabilities across categories. Brand-building and distribution access may help, but a dairy business, a coffee-shop platform and a sports-drink brand need not share identical manufacturing, customer or channel economics.

C. Portfolio Priorities

A wider portfolio creates competing demands for management attention, marketing and capital. For this decision exercise, students should identify which brands or categories merit incremental investment, which could use partnerships, and where resources should be withheld. Product-category adjacency is a hypothesis about synergy, not evidence that an acquisition price was justified.

Theoretical work on corporate scope links diversification to transferable resources and the difficulty of trading those resources through markets. Its implication here is to specify the capability being transferred and compare ownership with contractual alternatives. S7

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3. Revenue Growth Management: Price, Pack and Channel

Coca-Cola describes revenue growth management as a combination of brand, package and price choices. Its FY2024 commentary discusses returnable packaging and expansion of outlet coverage. These are management explanations of its commercial approach, not isolated causal estimates of each initiative's profit contribution. S2

Three mechanisms are relevant to the case:

- **Package and price architecture:** A smaller pack can lower the transaction price while raising price per unit of liquid. Whether it raises profit depends on packaging costs, channel margins, promotion, demand response and substitution from other packs.
- **Returnable packaging:** Reuse can spread container costs over multiple trips, but collection, cleaning, breakage, replacement and financing still cost money. The number of successful reuse cycles matters.
- **Route-to-market investment:** Better availability and service may support sales, but incremental contribution must cover the investment and operating costs borne by the parent and its partners.

For analysis, distinguish changes in physical volume, realised pricing and product/channel mix. Organic revenue growth is a company-defined non-GAAP measure; it is neither unit-case growth nor a direct measure of consumer willingness to pay. Assess whether a reported margin

improvement survives a consistent treatment of costs and business perimeter.

4. Acquisitions and Capital Allocation

Brand Target	Transaction	Strategic rationale to evaluate	Evidence available at the cutoff
Costa	Announced August 2018; closed January 2019	Expand in coffee using a platform across channels	Closing disclosure valued the transaction at $4.9bn and already identified Costa Express and ready-to-drink opportunities. S8
fairlife	Remaining interest acquired in 2020	Expand in value-added dairy	FY2024 includes a $3.109bn contingent-consideration remeasurement. Growth expectations and total acquisition economics must be assessed separately. S1
BODYARMOR	Remaining 85% acquired for $5.6bn in November 2021	Expand the sports-drink portfolio	Brand had Coke-system distribution access from 2018; FY2024 includes a $760m trademark impairment. S9; S1

Costa: Multi-Format Expansion

Coca-Cola completed the acquisition of Costa on 3 January 2019, following its August 2018 announcement. The closing release described an existing vending platform and opportunities in ready-to-drink coffee. The acquisition thesis therefore encompassed several formats from the outset. The transaction value in the table is the value disclosed at completion. S8

Students should evaluate whether the acquired capabilities fit Coca-Cola's strengths and what investment each channel requires. The evidence presented here does not establish Costa's stand-alone acquisition return. A judgement about success would require its cash flows, further capital deployed and an appropriate alternative use of funds.

BODYARMOR: Impairment and Competing Explanations

When Coca-Cola purchased the remaining stake in November 2021, BODYARMOR already had access to the Coca-Cola distribution system through the parent's 2018 investment. The acquisition release stated that distribution through that system would continue. Students should distinguish the increase in ownership from the distribution relationship already in place. S9

In the first quarter of 2024, Coca-Cola recorded a $760 million impairment of the BODYARMOR trademark. The annual report links the valuation change to revised operating projections and higher discount rates. It was not a goodwill impairment. S1 (impairment discussion)

These facts are consistent with several explanations: disappointing demand, operating underperformance, an acquisition price dependent on optimistic assumptions, or a higher required return. They do not identify distribution integration as the cause. Students should state what additional evidence would distinguish these explanations.

fairlife: Growth and Purchase Economics

The fairlife remeasurement increased an acquisition-related contingent liability and reduced reported operating income. It should be distinguished from a cash payment in that period. Nor does a stronger growth outlook alone prove that the investment has earned its cost of capital: additional consideration, capex and working capital belong in the assessment. S1 (Notes 17 and 18)

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5. Strategic Dilemmas and External Constraints

A. Consumer Preferences and Health-Related Demand

Changing consumer preferences and health concerns are risks identified in the annual report. Their financial effect depends on category, geography, substitution and the company's response. S1 (Risk Factors)

Hypothetical sensitivity: Consider a sustained reduction in demand for high-calorie beverages, potentially including changes associated with weight-management treatments. This case supplies no clinical estimate or quantified company-sales effect. Students must label any demand assumption, consider substitution within the portfolio and avoid assuming that zero-sugar products remove every demand risk.

B. Beverage Focus versus a Broader Food-and-Beverage Portfolio

Coca-Cola's beverage portfolio and PepsiCo's combination of beverages and convenient foods offer different exposures and possible capabilities. PepsiCo's reporting includes Frito-Lay, Quaker and beverage operations. S1; S10

Exhibit 3 compares reported FY2024 financial measures. A margin gap does not isolate the effect of corporate focus: category economics, ownership of production and distribution, geography and accounting charges also differ. The comparison should prompt an investigation of trade-offs, rather than settle which strategy is superior.

C. Packaging and Water

On 2 December 2024, Coca-Cola replaced previous environmental goals with updated ambitions extending to 2035. Packaging objectives included 35%-40% recycled material in primary packaging and collection of the equivalent of 70%-75% of bottles and cans introduced annually. The update also set a water-replenishment ambition for high-risk locations. These were goals, not demonstrated future outcomes. S11

Students should consider the operating and investment consequences of packaging choices, collection systems and water constraints. Costs and responsibilities may fall on different members of the system. The case does not assign an unsupported monetary value to these risks.

D. The Transfer-Pricing Dispute

The FY2024 filing describes an ongoing U.S. transfer-pricing dispute. In 2024, Coca-Cola remitted an approximately $6.0 billion **Tax Litigation Deposit** in response to IRS invoices for the disputed 2007-2009 years and appealed. The deposit was recorded in other noncurrent assets and could be refunded in whole or in part depending on the appeal outcome; it was not necessarily a final tax or interest payment. As of year-end 2024, the company estimated approximately $12 billion of potential remaining incremental tax and interest for 2010-2024 if the IRS methodology were sustained; further interest and later-year exposure could arise. This was a conditional estimate, not an additional settled bill. [S1, Note 12, HTML lines 1484-86]

For capital-allocation analysis, distinguish the remitted Tax Litigation Deposit from any final tax or interest liability. It is already reflected in the 2024 cash-flow baseline; do not count the same cash outflow twice in a future downside scenario or assume the deposit was permanently forfeited.

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6. Exhibits

Exhibit 1: Financial Profile, 2018-2024

USD millions, except percentages. Revenue, profit, operating cash flow and capex are reported amounts. Margins and free cash flow are calculated from those amounts; free cash flow is a non-GAAP measure defined here as operating cash flow less purchases of property, plant and equipment.

Metric	2018	2019	2020	2021	2022	2023	2024
Revenue	31,856	37,266	33,014	38,655	43,004	45,754	47,061
Gross profit	20,086	22,647	19,581	23,298	25,004	27,234	28,737
Gross margin	63.1%	60.8%	59.3%	60.3%	58.1%	59.5%	61.1%
Operating income	8,700	10,086	8,997	10,308	10,909	11,311	9,992
Operating margin	27.3%	27.1%	27.3%	26.7%	25.4%	24.7%	21.2%
Net income attributable to shareowners	6,434	8,920	7,747	9,771	9,542	10,714	10,631
Operating cash flow	7,320	10,471	9,844	12,625	11,018	11,599	6,805
Purchases of PP&E	1,347	2,054	1,177	1,367	1,484	1,852	2,064
Free cash flow (calculated)	5,973	8,417	8,667	11,258	9,534	9,747	4,741
Reported revenue growth	n/a	17.0%	-11.4%	17.1%	11.3%	6.4%	2.9%

Sources and method: 2018 figures: FY2018 annual filing and earnings release S12; S13. The 2019-2021 amounts were checked against the FY2021 financial statements S14; 2022 against FY2022 S15; and 2023-2024 against FY2024 S1; S2. Growth starts in 2019 so every denominator is visible in this table. Figures are historical consolidated results; acquisitions, divestitures and currency changes affect comparisons across years.

2024 earnings versus cash: Other operating charges included the fairlife remeasurement and BODYARMOR impairment described above. The $6,041 million IRS Tax Litigation Deposit reduced operating cash flow; it was not the operating expense responsible for the EBIT decline. The deposit was recorded in other noncurrent assets and could be refunded in whole or in part on appeal; it was not necessarily a final tax or interest payment. The company's reconciliation reports $10,782 million free cash flow excluding the deposit. Excluding the remittance analytically does not make the cash currently available. [S1, Note 12, HTML lines 1484-86]; S2

Exhibit 2: Disclosed System-Volume Aggregates, 2024

Measure	Share of worldwide unit-case volume
All sparkling soft drinks	69%
Trademark Coca-Cola, included within sparkling	47%
Other sparkling, calculated as 69% less 47%	22%
Non-sparkling residual, calculated as 100% less 69%	31%

Source: FY2024 10-K, distribution section. S1 Shares are rounded. The first two rows are nested, not additive: use either 69% + 31%, or 47% + 22% + 31%. Coca-Cola Zero Sugar is not added as a separate slice outside Trademark Coca-Cola. The filing figures used here do not provide a complete non-overlapping split of every remaining category.

Exhibit 3: Coca-Cola and PepsiCo, Reported FY2024 Results

Dimension	Coca-Cola	PepsiCo
Fiscal year end	31 December 2024	28 December 2024
Revenue, USD millions	47,061	91,854
Operating income/profit, USD millions	9,992	12,887
GAAP operating margin, calculated	21.2%	14.0%
Portfolio scope	Beverages across several categories	Beverages and convenient foods
Strategic issue for discussion	Can brand and partner investment sustain returns across the portfolio?	When do cross-category capabilities justify a broader scope?

Sources: Coca-Cola FY2024 release and annual report; PepsiCo FY2024 release. S1; S2; S10 Both margins use reported operating profit divided by reported revenue. Coca-Cola's separate 30.0% comparable non-GAAP margin is not used in this comparison. Similar accounting bases do not make the firms' business mixes or ownership structures identical, and the exhibit does not establish causal strategic superiority.

7. Case Study Discussion Questions

Module 1: Corporate Strategy & Firm Boundaries

1. **Refranchising and value creation:** What benefits and risks follow from changing ownership of manufacturing or distribution? Which evidence would distinguish genuine cash-flow improvement from a mechanical increase in reported margin? Consider the parent's and bottlers' investment incentives.

2. **Portfolio scope:** Which capabilities can Coca-Cola transfer across beverage categories? Compare acquisition, internal investment and partnership, and explain what would make the apparent synergies insufficient to justify ownership.

Module 2: Pricing & Acquisition Economics

3. **Price, pack and channel:** How could revenue growth management improve economic profit? Identify the costs, demand responses and substitution effects needed to evaluate smaller packs, refillables and distribution investment. Which of these inputs are not supplied by the case?

4. **Acquisition assessment:** What do the Costa transaction, BODYARMOR impairment and fairlife contingent-consideration charge reveal, and what do they leave unresolved? Specify the evidence needed to judge each investment's return without treating sales growth or accounting charges as conclusive.

Module 3: Risk & Capital Allocation

5. **Demand and operating resilience:** How should management test exposure to changing beverage preferences, packaging requirements and water constraints? Separate disclosed facts from hypothetical scenarios and identify investments that could remain useful across several outcomes.

6. **Capital allocation:** Recommend a priority among core investment, adjacent-category expansion and financial resilience or shareholder distributions. Show how your recommendation changes under a downside tax scenario, treating the already-remitted Tax Litigation Deposit as a deposit that could be refunded in whole or part, and explain the financial threshold at which you would choose a different option.

Sources

Source references identify historical documents available by the information cutoff. Company explanations are management statements; the decision assignment and analytical implications are the case author's. Public disclosures do not supply all brand-level costs, acquisition returns or demand elasticities.

- **S1.** Coca-Cola FY2024 Form 10-K, filed 20 February 2025: Business, Risk Factors, financial statements, impairment discussion and Notes 12, 17 and 18.
- **S2.** Coca-Cola FY2024 earnings release, 11 February 2025: performance discussion, annual income statement, GAAP/non-GAAP and free-cash-flow reconciliations.
- **S3.** Coca-Cola FY2015 Form 10-K, Note 2: historical refranchising structures and territory rights.
- **S4.** Coca-Cola 2006 annual review, Bottling Investments: formation effective 1 January 2006.
- **S5.** Accelerated bottler refranchising announcement, 9 February 2016.
- **S6.** Completion of U.S. refranchising, 30 October 2017.
- **S7.** Teece, “Towards an Economic Theory of the Multiproduct Firm”, Journal of Economic Behavior & Organization, 3(1), 1982, pp. 39-63. Conceptual analysis, not a Coca-Cola return estimate.
- **S8.** Costa acquisition closing announcement, 3 January 2019.
- **S9.** BODYARMOR remaining-stake acquisition, 1 November 2021.
- **S10.** PepsiCo FY2024 earnings release, 4 February 2025: annual reported results and segment information.
- **S11.** Updated voluntary environmental goals, 2 December 2024.
- **S12.** Coca-Cola FY2018 annual filing index, filed 21 February 2019.
- **S13.** Coca-Cola FY2018 earnings release, 14 February 2019.
- **S14.** Coca-Cola FY2021 Form 10-K, financial statements for 2019-2021.
- **S15.** Coca-Cola FY2022 Form 10-K, financial statements for 2020-2022.