

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

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Setting: Atlanta, Georgia

Protagonist: James Quincey (Chairman & CEO)

Executive Summary & Protagonist Hook

On a crisp morning at the global headquarters of The Coca-Cola Company (TCCC) in Atlanta, Georgia, Chairman and Chief Executive Officer James Quincey reviewed the company's long-term strategic scorecard. Over the preceding decade, Coca-Cola had undergone one of the most radical corporate restructurings in consumer packaged goods (CPG) history: an almost total de-verticalization of its capital-intensive bottling assets, an aggressive portfolio cull of roughly 200 underperforming brands, and a high-profile transition toward becoming a "Total Beverage Company."

The operational results appeared vindicated:

- Organic revenues expanded at double-digit rates through turbulent post-pandemic inflation.
- Comparable operating margins regularly topped 28% to 30%, vastly outstripping traditional CPG peers.
- The company's "Revenue Growth Management" (RGM) discipline had transformed soda packaging into an engine of high-margin pricing power.

Yet beneath these metrics lay strategic questions. Global public health scrutiny on sugar had intensified, compounded by the rapid adoption of GLP-1 anti-obesity medications. Multibillion-dollar inorganic growth bets in non-carbonated categories—most notably the \$5.1 billion acquisition of Costa Coffee and the \$5.6 billion purchase of BODYARMOR—faced operational headwinds, with BODYARMOR triggering significant goodwill impairments.

Simultaneously, a massive transfer-pricing tax dispute with the U.S. Internal Revenue Service (IRS) threatened potential cumulative liabilities exceeding \$16 billion.

Quincey and his leadership team faced a critical strategic challenge: *How should a 138-year-old brand guardian maintain superior Return on Invested Capital (ROIC) and volume growth when its core sparkling product faces health headwinds, and its diversification efforts expose the limits of its legacy distribution model?*

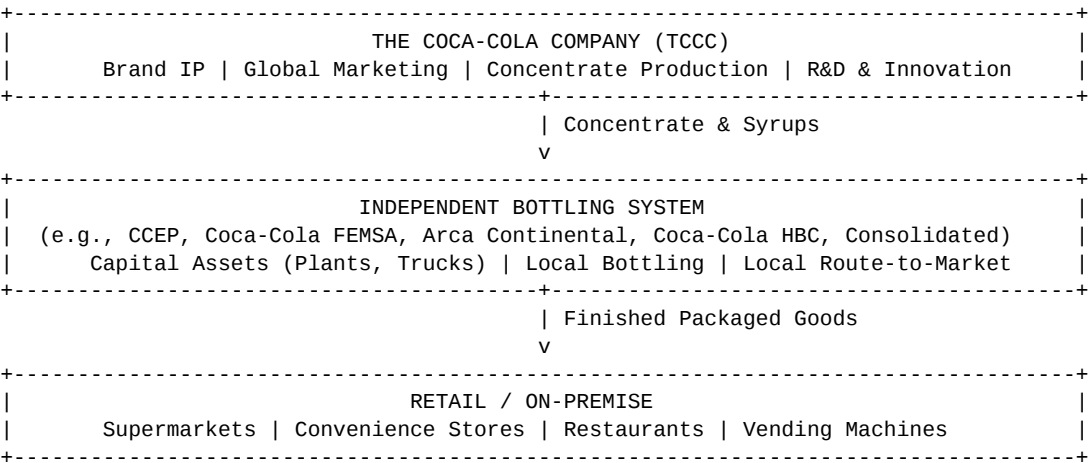
1. Company Background & The "System" Architecture

Founded in 1886 by pharmacist John Stith Pemberton and scaled by Asa Candler and Robert Woodruff, Coca-Cola's sustained competitive advantage has historically rested on an organizational innovation: **The Coca-Cola System**.

The Split Value Chain: Concentrate Producer vs. Bottler

Unlike vertically integrated manufacturers, Coca-Cola operates via a bifurcated franchise model:

- 1. **The Coca-Cola Company (TCCC):** Owns the intellectual property, formulas, global brand marketing, and consumer insights. TCCC manufactures and sells concentrated syrups and beverage bases to authorized bottling partners.
- 2. **The Bottling Partners:** Independent (or partially owned) regional entities-such as Coca-Cola FEMSA in Latin America, Coca-Cola Europacific Partners (CCEP) in Western Europe and Australasia, Coca-Cola HBC in Eastern Europe/Africa, and Coca-Cola Consolidated in the U.S.-purchase syrup, combine it with carbonated water and sweeteners, package it into finished cans and bottles, and execute Direct-Store-Delivery (DSD) to millions of retail outlets.



The Economics of Incidence Pricing

The commercial relationship between TCCC and its bottlers is governed by **incidence pricing agreements**. Under this structure, the price of concentrate sold by TCCC is calculated as a direct percentage of the bottler's net wholesale revenue (price minus excise taxes and trade promotions).

This aligns incentives: TCCC cannot grow concentrate revenues purely by dumping volume onto bottlers; both parties maximize economic profit only when retail revenue per unit case increases.

2. The Strategic Inflection Point (2015-2020): Asset-Light & "Beverages for Life"

A. The Great Refranchising (De-verticalization)

During the 1980s and 1990s, when independent bottlers struggled with capital constraints, TCCC formed the **Bottling Investments Group (BIG)**, acquiring underperforming bottlers to consolidate territories and modernize capital assets. By 2014, however, this vertical integration had bloated Coca-Cola's balance sheet, depressing its operating margins to ~21% and saddling the corporate parent with thousands of delivery vehicles, bottling lines, and tens of thousands of manufacturing employees.

Beginning under CEO Muhtar Kent and accelerated by James Quincey upon his appointment in 2017, TCCC executed a complete refranchising drive. It divested virtually all company-owned packaging and distribution assets in North America, China, and Europe back to independent bottler partners.

- **The Financial Decoupling:** Refranchising caused reported net revenues to drop from \$45.8 billion in 2014 to \$31.9 billion in 2018. However, this was an accounting optical illusion: lower-margin finished product sales were eliminated in favor of high-margin concentrate sales.
- **The Return Profile:** Operating margins expanded from 21.1% in 2014 to over 28% by 2019, capital expenditures collapsed, and ROIC expanded significantly. TCCC transitioned into a lean marketing, licensing, and R&D engine.

[Historical Coca-Cola: Capital Heavy]
(Pre-2015)

```
+-----+
| Concentrate Production |
+-----+
| Bottling & Packaging    |
+-----+
| Direct-Store Delivery  |
+-----+
* Operating Margin: ~20-22%
* Heavy PPE & Fleet Capex
```

[Modern Coca-Cola: Asset-Light]
(Post-2018)

```
+-----+
| Concentrate Production |
+-----+
                (Divested)
                (Divested)
* Operating Margin: ~28-31%
* Asset-Light Concentrate Model
```

B. The "Total Beverage Company" Shift

For over a century, volume growth in Trademark Coca-Cola was the primary barometer of corporate health. Yet, demographic shifts, health consciousness, and municipal sugar taxes (e.g., in the UK, Mexico, and U.S. cities like Philadelphia) eroded sparkling per-capita consumption.

Quincey instituted the **Total Beverage Company** doctrine, stating that the company must align its portfolio with what consumers *want to drink*, rather than pushing what the company preferred to manufacture. The portfolio was categorized into five consumer clusters:

1. **Sparkling:** Coca-Cola, Sprite, Fanta, Coca-Cola Zero Sugar.
2. **Hydration & Sports:** Dasani, Smartwater, Powerade, BODYARMOR.
3. **Juice, Dairy & Plant-Based:** Minute Maid, Simply, Fairlife, Innocent, AdeS.
4. **Tea & Coffee:** Costa Coffee, Georgia Coffee, Fuze Tea, Gold Peak.
5. **Emerging / Alcohol:** Topo Chico Hard Seltzer (partnership with Molson Coors), Jack Daniel's & Coca-Cola RTD (partnership with Brown-Forman).

C. "Kill Your Darlings": Portfolio Rationalization

In 2020, Coca-Cola took an axe to its portfolio, eliminating roughly half of its 400 master brands. A corporate audit revealed that over half of the brand count contributed barely 2% of total volume and operating profit. Legacy brands such as **Tab** (the pioneer diet soda launched in 1963), **Odwalla** (chilled fresh juices), and **ZICO** (coconut water) were terminated or sold. Resources were redirected behind scalable global "power brands".

3. Revenue Growth Management (RGM): Redefining Pricing Power

A pillar of Coca-Cola's resilience during the 2021-2024 inflationary surge was its execution of **Revenue Growth Management (RGM)**. While many consumer packaged goods firms resorted to blunt across-the-board list-price increases-alienating budget-conscious shoppers-Coca-Cola leveraged its proprietary customer data and bottler execution to implement granular **pack-price architecture**:

- **Mini-Cans & Premiumization:** In mature markets, Coca-Cola expanded the rollout of 7.5-ounce sleek mini-cans. A 10-pack of mini-cans yielded a substantially higher price-per-fluid-ounce than a conventional 12-pack of 12-ounce cans, providing consumers an accessible, calorie-controlled transaction while expanding gross margins per case.
- **Affordability Architecture in Emerging Markets:** In regions experiencing currency volatility and purchasing power erosion (e.g., Latin America, Southeast Asia, East Africa), the system scaled refillable glass and PET (refPET) bottles. By recovering the container, bottlers eliminated package cost from subsequent transactions, delivering price points that protected share against local B-brands.
- **Digital B2B Modernization:** Through platforms like *myCoke*, mom-and-pop convenience retailers ("tienditas", bodegas) were onboarded to algorithm-driven ordering systems, enabling predictive restocking and automated dynamic promotions.

4. Inorganic Growth and Capital Allocation: The M&A Trials

While organic RGM delivered margin expansion, Coca-Cola's large-scale capital deployment into non-carbonated spaces faced execution challenges.

Brand Target	Deal Size / Yr	Strategic Thesis	Operational Reality / Current Status
Costa Coffee	\$5.1B (2018)	Instant global hot-beverage platform; expand across on-premise, vending, and RTD formats.	COVID-19 shut retail cafes; pivot to RTD and Express vending; slower ROI delivery.
Fairlife	Full buyout (2020)	Disrupt value-added dairy via ultra-filtered, lactose-free, high-protein milk propositions.	Major commercial success; multi-billion-dollar brand with rapid category growth.
BODYARMOR	\$5.6B (2021)	Premium, potassium-electrolyte sports drink to challenge PepsiCo's dominant Gatorade.	Sharp post-acquisition growth slowdown; triggered ~\$1B in asset impairments.

The Costa Coffee Experiment (\$5.1B, 2018)

Coca-Cola acquired UK-based Costa Coffee to establish an immediate presence in the fast-growing \$500+ billion global coffee ecosystem. Unlike soft drinks, coffee consumption is heavily fragmented across formats: retail cafes, office dispensing, ready-to-drink (RTD) cans, and at-home whole bean.

Shortly after the acquisition, the COVID-19 pandemic forced the temporary closure of thousands of Costa retail brick-and-mortar stores across Europe and Asia. The company subsequently altered Costa's thesis, pivoting toward deploying **Costa Express** self-serve robotic kiosks and scaling Costa-branded RTD cans via the bottling system, while tempering retail cafe expansion.

The BODYARMOR Stumble (\$5.6B, 2021)

In late 2021, Coca-Cola purchased the remaining 85% of BODYARMOR for \$5.6 billion in cash, marking the company's largest single brand acquisition. The goal was to establish a two-pronged attack against PepsiCo's market-commanding Gatorade (which held >65% U.S. market share), pairing value/mass-market **Powerade** with the fast-growing, premium, athlete-endorsed **BODYARMOR**.

Post-closing, integration frictions emerged. Transitioning BODYARMOR from its legacy independent distributor network into Coca-Cola's captive bottling network coincided with founder-led management departures and surging ingredient costs.

Brand momentum cooled as consumers traded down amid high grocery inflation, leaving Powerade and BODYARMOR caught between Gatorade's marketing heft and aggressive upstarts like **Prime Hydration**. By late 2024 / early 2025, Coca-Cola recognized significant non-cash trademark impairments on BODYARMOR, writing down nearly \$1 billion of value and highlighting the friction of scaling entrepreneurial niche brands through legacy bottling infrastructure.

5. Strategic Dilemmas and External Headwinds

A. The GLP-1 Wave and the Shift in Caloric Consumption

The clinical and commercial expansion of GLP-1 receptor agonists (such as semaglutide and tirzepatide) has introduced a structural shift in dietary patterns. Patients on these therapies report reduced cravings for sugar, fat, and carbonation, leading to estimated caloric intake drops of 20% to 30%.

While Trademark Coca-Cola's core volume had already shifted increasingly to **Coca-Cola Zero Sugar**-which grew organically at double-digit rates across major geographies-the systemic adoption of weight-loss drugs poses a risk to sparkling beverages, snacks, and overall impulse purchasing frequency.

B. Pure-Play Beverage vs. The Conglomerate Approach (Coke vs. PepsiCo)

A fundamental corporate strategy debate centers on portfolio scope:

- **The Coca-Cola Approach:** A pure-play beverage focus. TCCC argues that beverage dynamics require dedicated, specialized brand-building and distinct route-to-market systems.
- **The PepsiCo Approach:** A diversified commercial model balancing beverages with snacks/convenient foods (Frito-Lay, Quaker Oats). PepsiCo leverages shelf-space power and shared back-office logistics to execute "Power of One" bundle merchandising (e.g., Doritos with Mountain Dew).

During periods of beverage volume volatility, PepsiCo relies on high-margin savory snacks to cushion earnings; conversely, Coca-Cola argues its asset-light pure-play model generates structurally superior ROIC and operating margins (Coca-Cola's operating margin ~28% vs. PepsiCo's ~13-14%).

C. Sustainability, Single-Use Plastics, and Water Neutrality

Coca-Cola is consistently scrutinized as one of the world's largest corporate producers of single-use plastic packaging, generating roughly 3 million metric tons of plastic waste annually. Under its **World Without Waste** charter, the company pledged to:

1. Make 100% of its packaging recyclable globally by 2025.
2. Use at least 50% recycled material in its packaging by 2030.
3. Collect and recycle a bottle or can for each one it sells by 2030.

Reaching these targets requires navigating fragmented global waste collection systems, fluctuating virgin-versus-rPET (recycled plastic) resin pricing economics, and evolving regulatory mandates (e.g., Extended Producer Responsibility laws in Europe and California). Furthermore, beverage manufacturing remains water-intensive, making water replenishment and watershed health in drought-stressed markets (India, Mexico, Southern Africa) a continuous operating license concern.

D. The Multi-Billion Dollar Transfer-Pricing Tax Threat

Beyond operational variables, an existential capital allocation issue looms in U.S. Federal Courts. In 2020 and 2023, the U.S. Tax Court ruled overwhelmingly in favor of the IRS regarding Coca-Cola's intercompany transfer-pricing methodologies for the tax years 2007 through 2009.

The IRS argued that Coca-Cola had improperly allocated excessive operating profits to its offshore concentrate manufacturing subsidiaries (supply points in Ireland, Costa Rica, Brazil, and Swaziland), shortchanging the U.S. parent company on taxable royalty income for the use of Coca-Cola's intellectual property.

In 2024, the Tax Court entered a formal deficiency judgment requiring Coca-Cola to pay approximately **\$2.7 billion in back taxes, plus accrued interest, totaling roughly \$6.0 billion**. While Coca-Cola deposited the funds and vigorously appealed the case to the Eleventh Circuit Court of Appeals, the IRS has stated its intent to apply the same methodology to subsequent audit years (2010 to present).

If the appellate court upholds the Tax Court's decision, Coca-Cola's potential aggregate tax liability could climb to **\$16 billion to \$18 billion**-a capital outlay that would deplete its cash reserves, constrain future M&A capacity, and place downward pressure on share repurchases.

6. Exhibits

Exhibit 1: The Coca-Cola Company - Financial Profile (2018-2024)

(Figures in USD Millions, except per-share and margin metrics)

Metric	2018	2019	2020	2021	2022	2023	2024
Net Operating Revenue	\$31,856	\$37,266	\$33,014	\$38,655	\$43,004	\$45,754	\$47,061
<i>YoY Reported Growth</i>	(10.0%)	17.0%	(11.4%)	17.1%	11.3%	6.4%	2.9%
Gross Profit	\$20,086	\$22,647	\$19,581	\$23,298	\$25,004	\$27,227	\$28,450
<i>Gross Margin %</i>	63.1%	60.8%	59.3%	60.3%	58.1%	59.5%	60.5%
Operating Income (EBIT)	\$8,700	\$10,086	\$8,997	\$10,308	\$10,909	\$12,440	\$10,950
<i>Operating Margin %</i>	27.3%	27.1%	27.3%	26.7%	25.4%	27.2%	23.3%
Net Income (Attributable to Shareowners)	\$6,434	\$8,920	\$7,747	\$9,771	\$9,542	\$10,714	\$11,580
Free Cash Flow (Non-GAAP)	\$6,078	\$8,417	\$8,675	\$10,210	\$9,532	\$9,747	\$4,750*

**Note: 2024 Operating Income and Free Cash Flow were materially affected by the IRS Tax Litigation cash deposit (\$6.0B total cash outflow recorded) and the non-cash BODYARMOR trademark impairment charges. Excluding the tax deposit, operating cash flows remained structurally sound.*

Exhibit 2: Global Unit Case Volume Breakdown by Category (Approximate Share of Total System Volume)

Category	Approx. % of System Volume (2024)
Trademark Coca-Cola (Original & Flavors)	46%
Coca-Cola Zero Sugar	12%
Sparkling Flavors (Sprite, Fanta, Fresca)	18%
Hydration & Sports (Smartwater, Dasani, BODYARMOR, etc.)	12%
Juice, Value-Added Dairy & Plant-Based	7%
Tea & Ready-to-Drink Coffee	5%

Exhibit 3: Comparative Corporate Models: Pure Beverage vs. Beverage & Snacks (2024 Approximate Metrics)

Dimension	The Coca-Cola Company (KO)	PepsiCo, Inc. (PEP)
Strategic Scope	Pure-play beverages (sparkling, hydration, juice, coffee, RTD alcohol).	Diversified: Beverages (~45% rev) + Convenient Foods / Snacks (~55% rev: Frito-Lay, Quaker).
Asset Intensity	Asset-light; finished packaging predominantly outsourced to independent bottlers.	Capital-intensive; owns large parts of its U.S. beverage bottling and vast food manufacturing facilities.
Operating Margin	~28.0% - 30.0% (comparable currency neutral).	~13.0% - 14.5%.
Primary Advantage	Higher pricing power, brand equity focus, superior cash conversion on concentrate sales.	Cross-category bundle selling ("snack & sip"), portfolio diversification buffering soda volume drops.
Primary Vulnerability	Highly sensitive to beverage shifts (sugar taxes, GLP-1s, packaging regulations).	High input cost volatility (potatoes, grains, edible oils), high Capex depreciation drag.

7. Case Study Discussion Questions

Module 1: Corporate Strategy & Firm Boundaries

1. **Vertical Integration vs. Disintegration:** Analyze Coca-Cola's decision to de-verticalize and rebrand its global bottling operations. What are the strategic trade-offs of an asset-light concentrate model versus a fully integrated distribution model? Under what environmental conditions might TCCC be forced to re-acquire its bottlers?
2. **Horizontal Scope & Synergy:** Evaluate the "Total Beverage Company" framework. Do categories like ready-to-drink coffee (Costa), value-added dairy (Fairlife), and premium sports drinks (BODYARMOR) share genuine operational synergies with Coca-Cola's core sparkling business, or does horizontal diversification dilute the system's core capabilities?

Module 2: Strategic Operations, Pricing, & M&A Execution

3. **Revenue Growth Management (RGM):** How did Coca-Cola leverage pack-price architecture (e.g., mini-cans, refillables) to decouple volume growth from dollar revenue growth during periods of severe macroeconomic inflation? What are the boundaries of this pricing power before consumer elasticity triggers severe demand erosion?
4. **Post-Merger Integration Failures:** Why did Coca-Cola succeed with Fairlife yet face significant hurdles and trademark impairments with BODYARMOR? In your analysis, assess the friction that occurs when an independent, entrepreneurial distribution network is forced into a standardized, franchisee-run DSD bottling system.

Module 3: Competitive Strategy, Disruption, & Risk Management

5. **Structural Threats (GLP-1s & Demographics):** If GLP-1 anti-obesity medications permanently alter high-calorie and carbonated beverage consumption, how effectively can Coca-Cola pivot its portfolio? Does shifting volume to Coca-Cola Zero Sugar fully insulate the firm's long-term economic profit?
6. **The Transfer-Pricing Overhang:** Assess the strategic and capital allocation consequences of the IRS transfer-pricing dispute. If Coca-Cola is required to pay upwards of \$16 billion in back taxes and structural tax increases, how should management re-balance its capital priorities across R&D, dividends, share repurchases, and inorganic acquisitions?