

ISSN: 2582-6433



INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed 6th Edition

VOLUME 2 ISSUE 7

www.ijlra.com

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Megha Middha, Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar

Megha Middha, is working as an Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar (Rajasthan). She has an experience in the teaching of almost 3 years. She has completed her graduation in BBA LL.B (H) from Amity University, Rajasthan (Gold Medalist) and did her post-graduation (LL.M in Business Laws) from NLSIU, Bengaluru. Currently, she is enrolled in a Ph.D. course in the Department of Law at Mohanlal Sukhadia University, Udaipur (Rajasthan). She wishes to excel in academics and research and contribute as much as she can to society. Through her interactions with the students, she tries to inculcate a sense of deep thinking power in her students and enlighten and guide them to the fact how they can

bring a change to the society

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Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board



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Assistant professor of Law

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Avinash Kumar



learning.

Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC - NET examination and has been awarded ICSSR - Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and

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GROWTH OF COCA COLA THROUGH ACQUISITIONS - A CASE STUDY

Authored By- Rishabh Agrawal

Table Of Contents

- I. Abstract
- II. Table of contents
- III. Introduction: “ the coca cola company”
- IV. A global distribution network – the coca-cola system
- V. Growth through mergers and acquisitions
- VI. Noteworthy partnerships
- VII. Pros and cons of mergers and acquisitions
- VIII. Conclusion

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Introduction: “The Coca Cola Company”

The "Coca-Cola Company," an American corporation founded in 1892, is primarily engaged in the production and marketing of syrup and concentrate for "Coca-Cola," a carbonated soft drink that is a cultural institution in the United States and a global symbol of American preferences. Furthermore, the company manufactures and distributes other soft drinks, such as citrusy drinks. "Coca-Cola" is the world's largest soft drink manufacturer and supplier, as well as one of the largest corporations in the United States, with over 2,800 products sold in over 200 countries. The headquarters are located in Atlanta, Georgia.

John S. Pemberton (1831–1888), an Atlanta pharmacist, founded the Pemberton Chemical Company in 1886, where he invented “Coca-Cola”. Frank Robinson, his secretary, chose the drink's name and hand-wrote it in the flowing style that became the "Coca-Cola" trademark. In 1903, cocaine was removed from the "Coca-Cola" recipe. Pemberton marketed his syrup to regional soda fountains with the help of promotion, and the beverage became a huge success. By 1891, another Atlanta chemist, "Asa Griggs Candler" (1851-1929), had gained complete control of the company (for a total monetary investment of \$2,300 and the exchange of some property rights), and the Coca-Cola Company was formed the following year. The trademark "Coca-Cola" was registered by the United States Patent and Trademark Office in 1893.

Under Candler's leadership, syrup sales increased from approximately 9,000 gallons in 1890 to 370,877 gallons in 1900. During the following era, syrup production facilities were established in Dallas, Los Angeles, and Philadelphia, and the product's distribution expanded to include every state, territory, and province in the United States, as well as Canada. In 1899, the "Coca-Cola" Company signed its first agreement with an independent bottling company to acquire syrup for the production, packaging, and distribution of "Coca-Cola" drinks.

These licence agreements laid the groundwork for the distinct distribution structure that now characterises the majority of the American soft-drink industry. The Coca-Cola Company, founded in 1892 with a \$100,000 capitalization, was purchased in 1919 for \$25 million by a consortium of shareholders led by Ernest Woodruff, an Atlanta entrepreneur. His son, Robert Winship Woodruff, was president and chair of the company for over three decades (1923-55).

"Coca-Cola" diversified its packaging and developed or acquired new products in the years following World War II. Coca-Cola first appeared in marketing in 1941 and became a brand name in 1945. The company purchased the rights to the German-created soft drink Fanta in

1946. The curved "Coca-Cola" bottle, first introduced in 1916, was granted trademark protection in 1960. Furthermore, the company invented the "lemon-lime" beverage "Sprite" in 1961 and the first sugar-free cola, Tab, in 1963. The company entered the citrus juice industry after acquiring "Minute Maid Corporation" in 1960. It purchased the Fresca brand in 1966.

"Coca-Cola" was the only business permitted to sell cold bottled beverages in the People's Republic of China beginning in 1978. In 1982, the corporation launched Diet Coke, a low-calorie, sugar-free soft drink (originally named Diet "Coca-Cola"). The business adopted a new flavour of "Coca-Cola" in April 1985, employing a recipe it devised based on taste testing, in an effort to combat its declining market share. However, New Coke was not warmly welcomed. "Coca-Cola" reinstated its original flavour in July, which was subsequently marketed as "Coca-Cola Classic" in response to consumer criticism. From 1982 through 1989, the corporation controlled Columbia Pictures Industries, Inc., a film and entertainment firm.

In the early 1990s, Coca-Cola gained access to new markets, beginning sales in Eastern Germany in 1990 and India in 1993. In 1992, the company released its initial bottle produced in part from recycled plastic, which was an important breakthrough for the industry at the time. Throughout the 1990s, "Coca-Cola" introduced several new beverages, including the Qoo children's beverage, Powerade sports drink, and Dasani bottled water, all of which were promoted across Asia. Additionally, Coca-Cola bought Barq's root beer in the United States; Inca Kola in Peru; Maaza, Thums Up, and Limca in India; and Cadbury Schweppes drinks, which were distributed in over 120 countries worldwide.¹

At the beginning of the twenty-first century, "Coca-Cola" was accused of illegally polluting the soil and water, as well as committing serious human rights breaches. In 2001, the "United Steelworkers of America and the International Labor Rights Fund (ILRF)" filed a lawsuit against "Coca-Cola" and "Bebidas y Alimentos and Panamerican Beverages, Inc." Several American institutions banned the sale of Coca-Cola products on campus as a result of the dispute, which attracted international attention. The action was dismissed in the end.

"Coca-Cola Zero", a zero-calorie soft drink with the same flavour as ordinary "Coca-Cola", was debuted in 2005. In 2007, the business purchased Energy Brands, Inc. and its assortment of flavoured drinks. In the same year, Coca-Cola stated that it will join the "Business Leaders Initiative on Human Rights (BLIHR)", a collection of firms collaborating to create and execute corporate responses to business-related human rights challenges.

¹Badenhausen, K, *The World's Most Valuable Brands 2018*, FORBES, <https://www.forbes.com/sites/kurtbadenhausen/2018/05/23/the-worlds-mostvaluable-brands-2018/#59d033d7610c>.

A Global Distribution Network- The Coca-Cola System

Coca-Cola's global development may be credited to their unique “franchise distribution structure” (called “the Coca-Cola System”), which they have been using since 1889. Several bottlers all throughout the world buy the syrup concentrate that Coca-Cola makes and sells. This allows the corporation to keep control over its top-secret formula without the hassle of operating many of the separate plants.

There are around 900 bottling operations in the Coca-Cola System and they manufacture 2 billion drinks every day. Each of the bottlers has a contract that restricts their operations to a specific area. Reduces competition from several firms selling the same product.

In addition to combining the syrup with carbonated water and sweeteners, these distributors also package and distribute “Coca-Cola” in cans or bottles to grocery stores, vending machines, restaurants, and cinemas. Whereas the main syrup is manufactured by “Coca-Cola”, franchisees are responsible for the management of carbonated drinks in their own territories.

The North American market is an exception to this strategy, as “Coca-Cola” Company itself keeps the majority of bottling and supply operations. “Coca-Cola” has constantly supported the amalgamation of different bottling firms outside of the United States. Coke has accumulated stock in many of the firms in the “Coca-Cola System” over time.²

Growth Through Mergers & Acquisitions

The Coca-Cola Company has a strategic plan in place to ensure that the company continues to expand. Their long-term ambitions are to increase the commercial beverage business in underdeveloped nations, with a particular emphasis on Africa. As well as streamlining internal procedures and generating new inventive items, they intend to reduce the number of master brands in their product line, create fewer but better-quality master brands, and improve their use of data.

As a result, Coca-Cola became one of the most prominent and recognisable brands. They've become a cultural icon in the United States thanks to their work in music, television, and movies. Advertisement is a large component of the company's annual revenue. This includes advertising on television and in social media.

² Delventhal, S, *The Largest Beverage Companies*, INVESTOPEDIA, <https://www.investopedia.com/news/worlds-largest-food-and-beverageplayers-2017-nestle-pepsi-coke-topple-peers/>.

But was this enough for the company's growth? I doubt. The company had something else in its mind. It was thinking of expanding the scale via mergers, acquisitions and partnerships.

The Coca-Cola Company owns, develops, and distributes more than 500 different brands across the world, including Coca-Cola and Diet Coke. New goods that they developed have led to certain brands. More than a few of these came via purchases, mergers, and other strategic alliances.

Some of the key mergers and acquisitions by the company are listed below:

- 1960- A juice, soft drink, and other beverage maker like "Hi-C", "Minute Maid", was purchased by Coca-Cola.
- 1993- Coke bought renowned Indian brand "Thums Up" because they couldn't break into the Indian market on its own. They currently account for more than 40% of India's cola market share.
- 1995- "Barq's", a maker of root beers and cream sodas, has been acquired.
- 1999- With the purchase of a 50% stake in the company, Coke was able to take over the company's marketing and bottling activities.
- 2001- The fruit drink, smoothie, and bar maker "Odwalla" was purchased. In 2020, this firm was shut down.
- 2007- Coca-Cola purchased vitamin and mineral-infused teas and fruit beverages manufacturer "Fuze" Beverage.
- 2008- A well-known iced tea manufacturer, "Honest Tea", was bought for \$40 million by the corporation. In 2011, Coca-Cola completed the purchase of all remaining shares, making it the sole owner.
- 2013- "ZICO", a manufacturer of coconut water, was recently acquired by Coca-Cola.
- 2014- Coca-Cola bought 16.7% of "Monster Beverage", the company that makes energy drinks, in return for a long-term strategic collaboration.
- 2016- As a result, Coca-Cola acquired a significant stake in "Chi Limited", Nigeria's largest distributor of snacks, food, and beverage items. In 2019, the remaining shares were purchased.
- 2017- Coca-Cola purchased the Mexican sparkling water brand Topo Chico.
- 2018- After Starbucks, Coca-Cola now owns the world's second largest coffeehouse business, "Costa Coffee".

- 2018- One of the world's leading kombucha producers, “Organic and Raw Trading Co.” of Australia, has been purchased.

Noteworthy Partnerships

The Coca-Cola Company has had numerous successful strategic alliances that have helped the company to develop rapidly in addition to controlling various brands.

The cooperation with “McDonald's” is one of the most well-known. Beverage suppliers were needed when “McDonald's” was first starting out in 1955. By signing a joint agreement, “McDonald's” will solely offer “Coca-Cola” drinks. McDonald's, the largest restaurant chain in the world, supplies "Coca-Cola" products in nearly 40,000 of its locations worldwide (based on revenue). “Burger King, Chili's, Chipotle, and Domino's Pizza” are just a few of the restaurants that offer Coca-Cola products.

There are various stadiums, theatres, and music halls where only Coca-Cola products may be purchased, thanks to partnerships with Coca-Cola. This time, Olympics is sponsored in majority by the “Coca-Cola” Company. After signing an agreement with Major League Baseball in 2017, Coke committed to remove Pepsi and solely market Coke products.³

Pros And Cons Of Mergers And Acquisitions

In this section, advantages and disadvantages of mergers and acquisitions by a company (Coca-Cola in this case) will be discussed. As the name suggests, mergers and acquisitions are transactions when two or more businesses merge together, or where one firm acquires another.

ADVANTAGES

When two or more businesses merge or acquire each other, there are several advantages for everyone involved. Benefits range from enhancing customer service to boosting productivity for the company's workforce. Mergers and acquisitions can have a number of benefits, including:

³ Fantozzi, J., *Coca-Cola sued for 'false and misleading marketing' of sodas*, FOX NEWS, <https://www.foxnews.com/food-drink/coca-colasued-for-false-and-misleading-marketing-of-sodas>.

- **Improved Economic Scale:** Material and supply requirements are often greater for larger businesses or those who have partnered with another firm. If companies purchase bigger amount of raw resources and/or consumables, they may reduce their expenses and pass on the benefits to consumer.
- **Lower Labor Costs:** As a result of a merger or acquisition, workers from both organisations may find up performing identical activities. By merging their resources and eliminating unneeded employees, companies may conserve money while maintaining a strong and productive staff. Professionals in mergers and acquisitions are able to evaluate the performance of others in comparable roles and select the most qualified individuals for every role in their new company.⁴
- **Increased Market Share:** When two businesses merge and work in the same industry or offer comparable products or services, the newly formed company can gain from the resources that both businesses bring to a business arrangement.
- **More Financial Resources:** The newly formed company's overall financial efficiency is increased by the combined financial resources of all the parties involved in a "merger or acquisition." Increased inventory space or a bigger marketing budget could open up new investment opportunities or expand the organization's audience.
- **Enhanced Distribution Capacities:** Mergers and acquisitions can broaden a company's geographic reach and hence its capacity to provide its products and services to a larger audience.

Every coin has two sides. If there are advantages, disadvantages follow.

DISADVANTAGES

In spite of the positive aspects of M&As, there are a number of negatives that must be carefully examined by all parties. Some of the possible drawbacks of mergers and acquisitions are as follows:

- **Increased Legal Costs:** A legitimate commercial transaction, the combination of two firms sometimes necessitates the participation of numerous essential specialists. To handle the assets and related financial concerns, the parties will typically need the

⁴ Moyer, J., *We Must Be More Agile: How a Culture Shift is Powering Coke's Innovation Agenda*, COCA COLA COMPANY, <https://www.coca-colacompany.com/stories/growth-is-not-an-objective-it-s-a-discipline-how-a-culture-shift-is-powering-coke-s-innovation-agenda>.

assistance of transaction-specific attorneys and financial experts. It is not uncommon for mergers and acquisitions to be accompanied by significant legal expenses.⁵

- **Expenses Associated with the Deal:** The firm acquiring the other would be required to pay a sum of money for that company and its assets, as well as the fees for the consultants engaged to assist with the merger or acquisition's logistics. A firm may regard such expense as a disadvantage.
- **Potentially Lost Opportunities:** Mergers and acquisitions may entail the loss of other chances because of the capital and time invested in the process.

Conclusion

The “Coca-Cola Company” has manufacturing facilities in approximately two-hundred plus countries, making it the largest non-alcoholic beverage supplier in the world. From sodas to energy drinks to soy-based drinks, it has more than 3500 beverage options (5000 brands). “Coca-Cola” in North America has taken attempts to re-establish its beverage strategy and business model in recent years. Category and brand emphasis is a priority for the American beverage manufacturer. Innovative goods like “ViO BiO” lemonades are constantly being introduced in Germany by the company. Sugar content will be reduced by 10% by 2020, according to their plan. As a result of these changes in recipes, lower container sizes, and clear product information for customers, this approach is adopted. An acquisition of New England-based soda firm Moxie was completed in August of this year. Because of the steady reduction in consumption of sugary drinks in the United States, this acquisition was necessary. In the first quarter of 2018, the firm exceeded revenue and profit targets. A solid 4% volume growth in the worldwide market, 3% growth in “Coca Cola”, and increased growth in “Coca Cola zero sugar” are the company's foundations.

Coca-Cola understands the importance of a positive customer experience to its company. According to “Smith + Co”, a five percent shoot in “client loyalty” may raise profitability by as much as 85 percent based on one study. As a result, it has decided to merge the function of the Chief Marketing Officer with that of the customer. Earlier this year, Coca-Cola announced the acquisition of Costa Coffee, a British coffee chain, for \$5.1 billion.

⁵ Garrett, B., *Coke's water bomb*, BBC, <http://news.bbc.co.uk/2/hi/business/3809539.stm>.

More than 3,800 Costa Coffee outlets exist across the world. Coffee will take precedence over retail competition at this point in time. The company's Chief Executive Officer, James Quincey has vowed not to effectively use CBD, a cannabinoid present in cannabis, until it is accepted by law, safe, and palatable. The firm will be able to produce and provide its customers both cold and hot beverages as a result of this transaction.

In recent months, Diet Coke has released four new flavours: Ginger Lime, Fiesta Cherry, Twisted Mango and Zesty Blood Orange. The Coca-Cola Company's volume growth engine will be fueled by this new notion. Fuze tea, Ayataka, and Gold Peak have all been added to the company's tea portfolio throughout the years. Fuze tea was available in 50 countries by the end of 2017.

According to Mr. Quincey, mergers and acquisitions will play an important role in driving development. When it comes to creating new platforms, he pointed to Coca Cola's-acquisition of Jugos del Valle as an example. On the other hand, the organization's future dividend growth is justified by its debt and cashflow, which Quincey estimates will remain at six transactions in 2019, as compared to six agreements in 2018. As part of Coca-SWOT Cola's analysis, the company points to its acquisition and merger prospects as one of its most important strengths. Additionally, the purchase of smaller firms and newer brands has played an important part in the company's extraordinary expansion.

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