

## **A PESTEL Analysis of Coca Cola:**

The non-alcoholic beverages brand Coca Cola operates in the global environment. The global environment subjects a corporation to several pressures. Today, the world market has grown highly globalized. Companies are doing business across large regions spanning several countries. In this highly globalized market, certain factors are of special significance that affect the businesses. Culture, politics, economic situation and even laws are some factors that affect businesses directly and indirectly. Coca Cola, also feels the pinch from time to time. Any change in the global business environment can impact its profits and revenues directly.

Coca Cola despite being the leading brand in the beverages industry, is not immune to the various political, social or economic fluctuations. Political or economic changes can negatively impact its profits. There are laws and regulations which vary from country to country and affect it directly. Simultaneously, Cultural factors are of significance. The business of Coca Cola is spread over more than 200 countries. Social and cultural factors acquire a special importance in that case. A PEST analysis of Coca Cola will determine all these factors which can impact its business in the global environment.

### **Political:**

The most important political factors which can have a direct impact on Coca Cola are laws and government regulation of food products. For example in US, the Food and Drug regulations apply to its business. Apart from it, these laws may vary from country to country. Coca Cola and its products must confirm to the relevant laws in the countries they are sold. (Coca Cola is a maker of non-alcoholic beverages) However, apart from the food and beverages related regulations and the quality standards, the business is also subject to the common accounting or business regulations. Tax laws vary from country to country. The company has to follow the relevant laws in order to do business in a particular market. Changes to these laws can potentially impact Coca Cola's profits and revenue. Any increase or decrease in tax rates can affect the profits of any corporation. Similarly, changes in the political situation of the countries like government changes or any political turmoil can potentially impact its business.

Coca Cola has remained the target of several lawsuits for its over consumption of water. Water is a scarce resource and the beverage giant requires it in plenty for production. In India alone several protests were staged against the company by citizens and non-governmental organizations. In the Kerala state of India, some village councils filed a case against Coca Cola for giving rise to water shortage through over consumption. The villagers alleged that Coca Cola consumed water in enormous amounts giving rise to a situation of shortage for the villages near its plants. Similarly, there are environmental laws which affect the soda giant. Several lawsuits related to quality standards or use of harmful ingredients have also been filed against it in the past. Allegations were made regarding Coca Cola using pesticides in its products. These issues potentially impact their business and revenue.

### **Economic:**

Economic factors too have a major and direct impact on the business of large and global companies. The recent global financial crisis reduced the profits of the businesses significantly. Coca Cola managed to remain relatively unscathed (the effects were felt the most by the financial companies), still its profits were to some degree affected. The way in which Coca Cola managed to retain its profits was surprising. Such economic crises impact the customers. People switch to the purchase of only the basic necessities under such conditions. Most

companies used alternative measures for cost cutting and cost reduction in order to bear the pressure of economic crisis. Still, in difficult times as those, Coca Cola surprised the industry. Global economic crises of this scale can have a heavy impact on all the major global businesses. Similarly, the rising costs of the raw products is an important factor affecting Coca Cola. Water scarcity is another major trouble. Coca Cola needs water in very large amounts for production, but its availability is limited. The cost of other raw products and labor has risen over time. All of these factors can have a deep impact on business and profits of the global brands. The economic crisis has passed but the strengthening of the US dollar again means Coca Cola will feel the pinch.

#### **Social:**

Social factors too are just as important from a business point of view. During the recent decades people have mostly switched from flavored to healthy drinks. Such trends can lead to a decline in the popularity of Coca Cola products. Any major change in people's preference and taste can impact the profits of a business. The Coca Cola products are mainly popular for their flavors. However, with people moving towards healthier drinks, Coca Cola had to focus and invest more on its marketing efforts. Media has also played an important role in changing people's perception of soda drinks which are mainly seen as 'loaded with calories'. The global drive against obesity affected people's choice of food products. Globally, junk food and soda beverages have faced a decline in sales. People are adopting healthier lifestyles and moving away from anything which can add to their weight including soda.

Coca Cola introduced several low calorie products to adopt to these changes. Other social trends like change in attitude towards American brands or other similar factors also affect Coca Cola. Following the American attacks on Iraq, its revenues were reduced in several countries. The importance of culture as a major factor in international trade has already been recognized by research. Its impact on the businesses cannot be underestimated. Culture's importance can also be understood from a marketing perspective. Coca Cola cannot ignore its importance particularly in the developing markets. As a result it has to adopt its marketing strategy to the local markets and their cultures - something we also know as brand localization.

#### **Technological:**

Technology is an important factor for the large businesses like Coca Cola. Their production and packaging as well as distribution, depend heavily on technology. In order to remain profitable, Coca Cola has to invest heavily in it. Technological efficiency ensures timely production and an efficient supply chain. All these factors are important for generating revenues. While technology in this area might not change daily, it requires lots of investment and maintenance. Whether it is the processing of water or the packaging of Coca Cola products, it all requires heavy use of technology. Thus, technological factors have an important and sizable impact on the business of Coca Cola.

#### **Environmental:**

Sustainability and environmental concerns have grown central to business in the 21st century and even for the companies with near zero or zero environmental footprint. Apart from reducing environmental impact, it also helps with better brand image. Coca Cola is making major investments in environmental issues and water stewardship. It has set ambitious sustainability plans for 2020 and is working to achieve these targets. It is investing in water smart agriculture through programs like CARE and RAIN. These programs are designed to help the farmers in Africa and Ghana learn new and more efficient methods of farming. Water scarcity has become a major problem in Africa and such programs are helping local farmers increase their yield against restraints. It has initiated other programs too in order to reach the community and empower women. However, since agricultural products constitute a major portion of its raw material, it

is working to advance the interests of farmers in various parts of the world. Apart from it to reduce its environment impact, it has focused on recycling and sustainable packaging. Moreover, environmental factors have also grown important for legal reasons since governments around the world are more focused on environmental concerns and have framed more stringent laws.

**LEGAL:**

Compliance has also become an important concern for the businesses around the world and especially for those operating in the international environment. There are several laws and they vary from country to country and market to market. Noncompliance can cost billions in fines and can also result in loss of image. From labor to product quality and environment there are several areas where compliance is essential. In the past Coca Cola has faced a tussle with law in several areas including the quality and composition of its products to labor practices. It is why it has especially focused on corporate governance, ethics and compliance. It has got its own ethics and compliance program so that all its associates are compliant whichever part of the world, they are employed in.

A PEST analysis demonstrates that certain political, economic, social and technological factors are of particular importance for the soda giant's business. While the technological factors might be in its control, the social, political and economic factors would require it to adopt its marketing strategies as per the changing conditions. Water scarcity is particularly a big problem affecting Coca Cola. Water scarcity would continue to trouble it in the long term in most of the countries where its production plants are based. This will also be the most difficult area for Coca Cola to manage. While it has made its move towards healthier products by increasing the number of low calorie beverages and the world economy is also geared towards growth, a stronger dollar may still continue to bite.