The following is the comparative explanation of profitability for FY 2021 by both Coca Cola (KO) and Pepsi Co. (PEP) as outlined in MD&A analysis of operational risks and challenges, or Item 7 for both 10-K disclosures.

1. KO management assertions:

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| Year Ended December 31, | **2021** | | **2021 % of Net Revenue** | 2020 | | 2020 % of Net Revenue | 2019 | | 2019 % of Net Revenue |
| **Net Operating Revenues** | **$** | **38,655** | **100%** | $ | 33014 | 100% | $ | 37,266 | 100% |
| Cost of goods sold | **15,357** | | **40%** | 13433 | | 41% | 14,619 | | 39% |
| **Gross Profit** | **23,298** | | **60%** | 19581 | | 59% | 22,647 | | 61% |
| Selling, general and administrative expenses | **12,144** | | **31%** | 9731 | | 29% | 12,103 | | 32% |
| Other operating charges | **846** | | **2%** | 853 | | 3% | 458 | | 1% |
| **Operating Income** | **10,308** | | **27%** | 8997 | | 27% | 10,086 | | 27% |

While sales have overall increased from FY 2020, KO leadership lamented that operating revenues were impacted by COVID lockdown policies enacted by foreign governments to contain infection amongst their populace. KO operates in over 200 foreign countries, each with their lockdown policies. 69% of revenues from FY 2021 came from foreign sales. Manufacturing costs increased and supply chain vendors faced credit crunches and bankruptcy that KO cannot control. KO sends concentrate products to independent bottlers for bottling. To get around vendor constraints, KO seeks to gain controlling interest within vendors in the supply chain (especially in bottling partners) they feel adds to their overall valuation. And then restructuring their corporate governance into a single channel across all subsidiaries. Because they control bottler and vendors, they express sales volume as “Unit Case Sales” KO managers emphasized that there was no material impact from these lockdowns, especially not on domestic sales. KO managers are more focused on foreign sales and brand dominance v. domestic. Other considerations focus on seasonality of demand and foreign exchange rates.

KO’s products are very diversified, and 61% of FY 2021 came from their diversified offerings, and not their core soda products. Because of the lockdowns, availability of ingredient materials for these alternative products became hard-to-come-by and costly. Additionally, overall demand for their core soda product is in a downward trend. The current social climate with a focus on lowering the obesity rate and environmental impact in manufacturing have increased costs. KO has subscribed to the ESG metric (Environmental, Social, & Corporate Governance). The assertion being that product demand can be increased if KO presents and achieves a social responsibility benchmark that will entice consumer confidence in their products. In most foreign countries, local customers embrace social responsibility-centered consumer behavior. Also, ESG achievements will drive access to investment and sustained creditworthiness for operational funding. What this means is that KO management is investing in the products of their subsidiary brands. Changing product lines to offer low serving sizes, low-calorie, and health-centered consumables. Restrictive advertising campaigns away from children. But KO emphasized it is difficult making a favorable product without low-cost syrups, chemicals, and sugars to achieve those health preferences at the same cost.

Finally, KO management laments that COVID lockdowns changed consumer buying preferences to what they refer to as “at-home” consumption and not “away-from-home” consumption. Restaurants have been closed or limited operating hours. Travel bans and other considerations have led people to use Amazon, food delivery, and e-commerce services to buy products. These services limit the scope of KO to reach new customers. KO management is investing in developing their online sales platforms to get product and product recognition directly to base consumers that are used to the convenience of online shopping.

1. PEP management assertions:

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|  | | | **2021** | | | **2021 % of Net Revenues** | | | **2020** | | | **2020 % of Net Revenues** | | | **2019** | | | **2019 % of Net Revenues** | | |
| **Net Revenue** | | | **$** | **79,474** |  | **100%** | | | $ | 70,372 |  | 100% | | | $ | 67,161 |  | 100% | | |
| Cost of sales | | | **37,075** | |  | **47%** | | | 31,797 | |  | 45% | | | 30,132 | |  | 45% | | |
| Gross profit | | | **42,399** |  |  | **53%** | | | 38,575 | |  | 55% | | | 37,029 | |  | 55% | | |
| Selling, general and administrative expenses | | | **31,237** | |  | **39%** | | | 28,495 | |  | 40% | | | 26,738 | |  | 40% | | |
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| **Operating Profit** | | | **11,162** | |  | **14%** | | | 10,080 | |  | 14% | | | 10,291 | |  | 15% | | |

Like KO, Pepsi Co. is concerned more with foreign sales than domestic. They also operate in more than 200 countries and COVID lockdowns have impacted sales potential in FY 2021. However, they rely less on foreign sales that make up their revenue. Only 44% of foreign sales made up overall FY 2021 revenues. The lockdowns had no material effect on operations, especially not domestically. PEP is still more sales focused on foreign market share. Manufacturing and access to ingredient materials became scarce and hard to come by. Vendors in the supply chain faced credit problems and bankruptcy which PEP mentioned they cannot control. Unlike KO who resolved to obtain controlling interest in vendor companies essential to their product distribution, PEP relied more on doing business with vendors where their own board members also sat on the boards of those companies, gaining favorable contracts, while maintaining non-controlling interest. Bottling partners used by PEP are independent. And these independent vendors are more self-reliant making “made-to-go” products that don’t rely on using outside materials. PEP still sends concentrate materials to independent bottlers. PEP expresses sales as “Bottler Case Sales” (BCS).

Like KO, demand for primary soda products is down. Pepsi Co. believes being a socially responsible and environmentally company, offering healthy low-calorie, low-sugar, low-serving size products made with minimal environmental impact will drive demand for their products. But being able to offer healthy products without sugars, syrups, and chemical additives will post a challenge. They do not use the ESG metric like their competitor, but are focused on environmental impact perception. PEP is focused on their specific water product offerings and increasing sales volume in its sparkling water products. Moreover, the quality source of where they get their water.

Like KO, Pepsi Co. recognizes the COVID lockdowns shifting consumption from online platforms where they are limited in reaching customers. Pepsi is investing in their own online sales platform to increase consumer reach.

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| Revenue Challenge | KO | PEP |
| COVID-19 | Foreign sales account for **69%** of revenues in FY 2021. KO operates in more than 200 countries. Foreign government COVID policies created supply chain issues and increased costs to manufacture and distribute in foreign territories. | Foreign sales account for **44%** of revenues in FY 2021. PEP operates in more than 200 countries. Foreign government COVID policies created supply issues and increased costs to manufacture and distribute in foreign territories. |
| Vendor Issues | Vendors have been financially impacted and could face credit issues and bankruptcy due to COVID policies. KO cannot help these issues. KO is focused on acquiring controlling ownership interest in vendor companies that generate value to brand, especially bottling operations becoming company-owned. They express sales in Unit Case Sales (UCS). | Vendors have been financially impacted and could face credit issues and bankruptcy due to COVID policies. PEP cannot help these issues. PEP board members also serve as board members on vendor companies, an negotiate favorable contracts. They have non-controlling interest in supply chain partners. Bottling partners are independent, and make made-go-products with less reliance on needing outside ingredients. They express sales in Bottler Case Sales (BCS) |
| Demand for product | 61% of revenues came from derivative products, and not core soda products. Obesity and environmental concerns have lowered demand for core soda products. KO is focused on developing their ESG metrics to drive demand through responsible product manufacturing and offerings. They are focusing away from regular soda products and increasing investment in product diversification, developing low-calorie, low serving size, healthy brand products through their subsidiaries. As well as restricting their marketing to children under 12 years old. But there are challenges in not using sugars, chemical additives, that drove | Obesity and environmental concerns have lowered demand for core soda products. PEP does not use ESG, but it focused on driving demand with responsible product and manufacturing and offerings. Focused on water-product sourcing. Especially sparking water. |
| E-Commerce | COVID lockdowns have shifting consumer preferences to ‘at-home’ consumption v. ‘away-from-home’ consumption. Focused on developing online sales | COVID lockdowns cause consumers to shop online for food items. Developing online sales platform. |
| Non-GAAP considerations |  | Financial disclosures exclude pension liabilities. |