031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 31

CHAPTER THREE

Cola Wars: Coca-Cola vs. PepsiCo

Intense competition between Pepsi and Coca-Cola has characterized the soft-drink industry for decades. In this chess game of giant firms, Coca-Cola ruled the soft-drink market throughout the 1950s, 1960s, and early 1970s. It outsold Pepsi two to one. But this was to change. Then the chess game, or "war," switched to the international arena, and it became a "world war."

EARLY BATTLES, LEADING TO NEW COKE FIASCO

Pepsi Inroads, 1970s and 1980s

By the mid-1970s, the Coca-Cola Company was a lumbering giant. Performance reflected this. Between 1976 and 1978, the growth rate of Coca-Cola soft drinks dropped from 13 percent annually to a meager 2 percent. As the giant stumbled, Pepsi Cola was finding heady triumphs. First came the "Pepsi Generation." This advertising campaign captured the imagination of the baby boomers with its idealism and youth. This association with youth and vitality greatly enhanced the image of Pepsi and firmly associated it with the largest consumer market for soft drinks.

Then came another management coup, the "Pepsi Challenge," in which comparative taste tests with consumers showed a clear preference for Pepsi. This campaign led to a rapid increase in Pepsi's market share, from 6 to 14 percent of total U.S. soft-drink sales.

Coca-Cola, in defense, conducted its own taste tests. Alas, these tests had the same result—people liked the taste of Pepsi better, and market-share changes reflected this. As Table 3.1 shows, by 1979, Pepsi was closing the gap on Coca-Cola, having 17.9 percent of the soft-drink market, to Coke's 23.9 percent. By the end of 1984, Coke had only a 2.9 percent lead, while in the grocery store market it was now trailing by 1.7 percent. Further indication of the diminishing position of Coke relative to Pepsi was a study done by Coca-Cola's own marketing research department. The study showed that in 1972, 18 percent of soft-drink users drank Coke exclusively, while only 4 percent drank only Pepsi. In 10 years the picture had changed greatly:

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 32

TABLE 3.1 Coke and Pepsi Shares of Total Soft-Drink Market, 1950s–1984

		1975		*1979*		*1984*	
	Mid-1950s Lead	% of Market	Lead	% of Market	Lead	% of Market	Lead
Coke	Better than 2 to 1	24.2	6.8	23.9	6.0	21.7	2.9
Pepsi		17.4		17.9		18.8	

Source: Thomas Oliver, *The Real Coke. The Real Story* (New York: Random House, 1986), pp. 21, 50; "Two Cokes Really Are Better Than One—For Now," *Business Week,* 9 September 1985, p. 38.

Only 12 percent now claimed loyalty to Coke, while the number of exclusive Pepsi drinkers almost matched, with 11 percent. Figure 3.1 shows this change graphically.

What made the deteriorating comparative performance of Coke all the more worrisome and frustrating to Coca-Cola was that it was outspending Pepsi in advertising by $100 million. It had twice as many vending machines, dominated fountains, had more shelf space, and was competitively priced. Why was it losing market share? The advertising undoubtedly was not as effective as that of Pepsi, despite vastly more money spent. And this raises the question: How can we measure the effectiveness of advertising? See the following Information Box for a discussion.

Coca-Cola Tries to Battle Back

The Changing of the Guard at Coke

J. Paul Austin, chairman of Coca-Cola, was nearing retirement in 1980. Donald Keough, president for the American group, was expected to succeed him. But a new name, Roberto Goizueta, suddenly emerged. Goizueta's background was far different

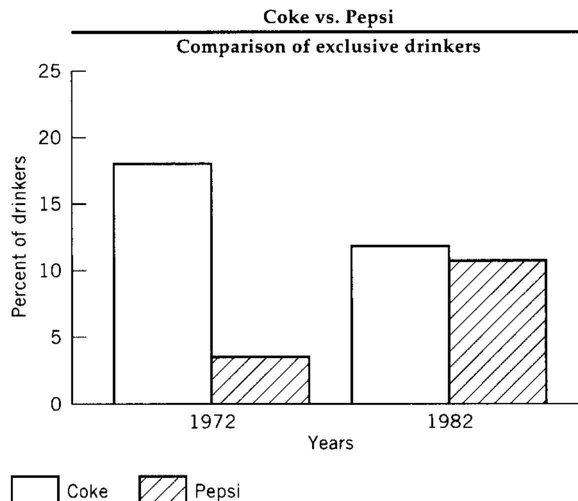

Figure 3.1 Coke versus Pepsi: Comparison of exclusive drinkers, 1972 and 1982.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 33

INFORMATION BOX

HOW DO WE MEASURE THE EFFECTIVENESS OF ADVERTISING?

A firm can spend millions of dollars for advertising, and it is only natural to want some feedback on the results of such an expenditure: To what extent did the advertising really pay off? Yet many problems confront the firm trying to measure this.

Most methods for measuring effectiveness focus not on sales changes, but on how well the communication is remembered, recognized, or recalled. Most evaluative methods simply tell which ad is the best among those being appraised. But even though one ad may be found to be more memorable or to create more attention than another, that fact alone gives no assurance of relationship to sales success. A classic example of the dire consequences that can befall advertising people as a result of the inability to directly measure the impact of ads on sales occurred in December 1970.

In 1970, the Doyle Dane Bernbach advertising agency created memorable TV commercials for Alka-Seltzer, such as the "spicy meatball man," and the "poached oyster bride." These won professional awards as the best commercials of the year and received high marks for humor and audience recall. But in December, the $22 million account was abruptly switched to another agency. The reason? Alka-Seltzer's sales had dropped somewhat. Of course, no one will ever know whether the drop might have been much worse without these notable commercials.

So, how do we measure the value of millions of dollars spent for advertising? Not well; nor can we determine what is the right amount to spend, what is too much, or too little.

Can a business succeed without advertising? Why or why not?

from that of the typical Coca-Cola executive. He was not from Georgia (the company is headquartered in Atlanta) and was not even southern. Rather, he was the son of a wealthy Havana sugar plantation owner. He came to the United States at age sixteen, speaking virtually no English. By using the dictionary and watching movies, he quickly learned the language and graduated from Yale in 1955 with a degree in chemical engineering. Returning to Cuba, he went to work in Coke's Cuban research lab.

Goizueta's complacent life was to change in 1959 when Fidel Castro seized power. With his wife and three children he fled to the United States, arriving with $20. At Coca-Cola, he became known as a brilliant administrator and in 1968 was brought to company headquarters; he became chairman of the board thirteen years later, in 1981. Donald Keough had to settle for being president.

In the new era of change, the sacredness of the commitment to the original Coke formula became tenuous, and the ground was laid for the first flavor change in ninety-nine years.

Introducing a New Flavor for Coke

With the market-share erosion of the late 1970s and early 1980s, despite strong advertising and superior distribution, the company began to look at the soft-drink product itself. Taste was suspected as the chief culprit in Coke's decline, and marketing

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 34

research seemed to confirm this. In September 1984, the technical division developed a sweeter flavor. In perhaps the biggest taste test ever, costing $4 million, 55 percent of 191,000 people approved it over Pepsi and the original formula of Coke. Top executives unanimously agreed to change the taste and take the old Coke off the market.

But the results flabbergasted company executives. While some protests were expected, they quickly mushroomed; by mid-May 1985 calls were coming in at the rate of 5,000 a day, in addition to a barrage of angry letters. People were speaking of Coke as an American symbol and as a long-time friend who had suddenly betrayed them.

Anger spread across the country, fueled by media publicity. Fiddling with the formula for the 99-year-old beverage became an affront to patriotic pride. Even Goizueta's father spoke out against the switch and jokingly threatened to disown his son. By now the company began to worry about a consumer boycott against the product.

On July 11th company officials capitulated to the outcry. They apologized to the public and brought back the original taste of Coke.

Roger Enrico, president of Pepsi-Cola, USA, gloated, "Clearly this is the Edsel of the '80s. This was a terrible mistake. Coke's got a lemon on its hand and now they're trying to make lemonade." Other critics labeled this the "marketing blunder of the decade."[1]

Unfortunately for Pepsi, the euphoria of a major blunder by Coca-Cola was short lived. The two-cola strategy of Coca-Cola—it kept the new flavor in addition to bringing back the old classic—seemed to be stimulating sales far more than ever expected. While Coke Classic was outselling New Coke by better than two to one nationwide, for the full year of 1985, sales from all operations rose 10 percent and profits 9 percent. Coca-Cola's fortunes continued to improve steadily. By 1988, it was producing five of the top-ten selling soft drinks in the country and now had a total 40 percent of the domestic market to 31 percent for Pepsi.[2]

BATTLE SHIFTS TO INTERNATIONAL ARENA

Pepsi's Troubles in Brazil

Early in 1994, PepsiCo began an ambitious assault on the soft-drink market in Brazil. Making this invasion even more tempting was the opportunity to combat arch-rival Coca-Cola, already entrenched in this third largest soft-drink market in the world, behind only the United States and Mexico.

The robust market of Brazil had attracted Pepsi before. Its hot weather and a growing teen population positioned Brazil to become one of the world's fastest-growing soft-drink markets, along with China, India, and Southeast Asia. But the potential still had barely been tapped. Brazilian consumers averaged only 264 eight-ounce servings of soft drinks a year, far below the U. S. average of about 800.[3]

[1] John Greenwald, "Coca-Cola's Big Fizzle," *Time,* July 22, 1985, pp. 48–49.

[2] "Some Things Don't Go Better with Coke," *Forbes,* March 21, 1988, pp. 34–35.

[3] Robert Frank and Jonathan Friedland, "How Pepsi's Charge into Brazil Fell Short of Its Ambitious Goals," *Wall Street Journal,* August 30, 1996, p. A1.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 35

Three times during the previous twenty-five years, Pepsi had attempted to enter the Brazilian market with splashy promotional campaigns and different bottlers. Each of these efforts proved disappointing, and Pepsi quickly dropped them and retreated from the field. In 1994, it planned a much more aggressive and enduring push.

A Super Bottler, Baesa, and Charles Beach

Buenos Aires Embotelladora SA, or Baesa, was to be the key to Pepsi's rejuvenated entry into Brazil. Baesa would be Pepsi's "superbottler," one that would buy small bottlers across Latin America, expand their marketing and distribution, and be the fulcrum in the drive against Coca-Cola. Charles Beach, the CEO of Baesa, was the person around whom Pepsi planned its strategy.

Beach, 61, was a passionate, driven man, a veteran of the cola wars, but his was a checkered past. A Coca-Cola bottler in Virginia, he was indicted by a federal grand jury on charges of price fixing and received a $100,000 fine and a suspended prison sentence. He then bought Pepsi's small Puerto Rican franchise in 1987. Then, in 1989, Beach acquired the exclusive Pepsi franchise for Buenos Aires, Argentina—one of the most important bottling franchises outside the United States. By discounting and launching new products and packages, he caught Coke by surprise. In only three years, he had increased Pepsi's market share in the Buenos Aires metro area from almost zero to 34 percent.[4]

With Pepsi's blessing, Beach expanded vigorously, borrowing heavily to do so. He bought major Pepsi franchises in Chile, Uruguay, and most importantly, Brazil, where he built four giant bottling plants. Pepsi worked closely with Baesa's expansion, providing funds to facilitate it.

However, they underestimated the aggressiveness of Coca-Cola. Their rival spent heavily on marketing and cold-drink equipment for its choice customers. As a result Baesa was shut out of small retail outlets, those most profitable for bottlers. Goizueta, CEO of Coca-Cola, used his Latin American background to influence the Argentine president to reduce an onerous 24 percent tax on cola to 4 percent. This move strengthened Coke's position against Baesa, which in contrast to Coca-Cola was earning most of its profits from non-cola drinks.

By early 1996, Baesa's expansion plans—and Pepsi's dream—were floundering. The new Brazilian plants were running at only a third of capacity. Baesa lost $300 million for the first half of 1996, and PepsiCo injected another $40 million into Baesa.

On May 9, Beach was relieved of his position. Allegations now surfaced that Beach might have tampered with Baesa's books.[5] But PepsiCo's troubles did not end with the debacle in Brazil.

Intrigue in Venezuela

Brazil was only symptomatic of other overseas problems for Pepsi. Roger Enrico, now CEO, had reasons to shake his head and wonder at how the gods seemed against him.

[4] Patrica Sellers, "How Coke Is Kicking Pepsi's Can," *Fortune,* October 28, 1996, p. 78.

[5] Ibid, p. 79.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 36

But it was not the gods, it was Coca-Cola. Enrico had been on Coke's blacklist since he had gloated a decade before about the New Coke debacle in his memoir, *The Other Guy Blinked: How Pepsi Won the Cola Wars.* Goizueta was soon to gloat, "It appears that the company that claimed to have won the cola wars is now raising the white flag."[6]

The person Enrico thought was his close friend, Oswaldo Cisneros, head of one of Pepsi's oldest and largest foreign bottling franchises, suddenly abandoned Pepsi for Coca-Cola. Essentially, this took Pepsi out of the Venezuelan market.

Despite close ties of the Cisneroses with the Enricos, little things led to the chasm. The closeness had developed when Enrico headed the international operations of PepsiCo. After Enrico left this position for higher offices at corporate headquarters, Oswaldo Cisneros felt that Pepsi management paid scant attention to Venezuela: "That showed I wasn't an important player in their future," he said.[7] Because Cisneros was growing older, he wanted to sell the bottling operation, but Pepsi was only willing to acquire 10 percent.

Coca-Cola wooed the Cisneroses with red-carpet treatment and frequent meetings with its highest executives. Eventually, Coca-Cola agreed to pay an estimated $500 million to buy 50 percent of the business.

Pepsi's Problems Elsewhere in the International Arena

Pepsi's problems in South America mirrored its problems worldwide. It had lost its initial lead in Russia, Eastern Europe, and parts of Southeast Asia. While it had a head start in India, this was being eroded by a hard-driving Coca-Cola. Even in Mexico, its main bottler reported a loss of $15 million in 1995.

The contrast with Coca-Cola was significant. Pepsi still generated more than 70 percent of its beverage profits from the United States; Coca-Cola got 80 percent from overseas.[8]

Table 3.2 shows the top-ten markets for Coke and Pepsi in 1996 in the total world market. Coke had a 49 percent market share while Pepsi had only 17 percent, despite its investment of more than $2 billion since 1990 to straighten out its overseas bottling operations and improve its image.[9] With its careful investment in bottlers and increased financial resources to plow into marketing, Coke continued to gain greater control of the global soft-drink industry.

If there was any consolation for PepsiCo, it was that its overseas business had always been far less important to it than to Coca-Cola, but this was slim comfort in view of the huge potential this market represented. Most of Pepsi's revenues were in the U. S. beverage, snack food, and restaurant businesses, with such well-known brands as Frito-Lay, Taco Bell, Pizza Hut, and KFC (Kentucky Fried Chicken) restaurants. But as a former Pepsi CEO was fond of stating, "We're proud of the U. S.

[6] Ibid, p. 72.

[7] Ibid, p. 75.

[8] Frank and Friedland, p. A1.

[9] Robert Frank, "Pepsi Losing Overseas Fizz to Coca-Cola," *Wall Street Journal,* August 22, 1996, p. C2.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 37

TABLE 3.2 Coke and Pepsi Shares of Total Soft-Drink Sales, Top Ten Markets, 1996

	Market Shares	
Markets	Coke	Pepsi
United States	42%	31%
Mexico	61	21
Japan	34	5
Brazil	51	10
East-Central Europe	40	21
Germany	56	5
Canada	37	34
Middle East	23	38
China	20	10
Britain	32	12

Source: Company annual reports, and Patricia Sellers, "How Coke Is Kicking Pepsi's Can," *Fortune,* 28 October 1996, p. 82.

Commentary: These market share comparisons show the extent of Pepsi's ineptitude in its international markets. In only one of these top 10 overseas markets is it ahead of Coke, and in some, such as Japan, Germany, and Brazil, it is practically a nonplayer.

business. But 95 percent of the world doesn't live here."[10] And Pepsi seemed unable to hold its own against Coke in this world market.

COKE TRAVAILS IN EUROPE, 1999

The Trials of Douglas Ivester

In early 1998, Douglas Ivester took over as chairman and chief executive of Coca-Cola. He had a tough act to follow, being the successor to the legendary Goizuerta. Things seemed to go downhill from then on, but it was not entirely his fault. The first quarter of 1999 witnessed a sharp slowdown in Coca-Cola's North American business, at least partly due to price increases designed to overcome weakness resulting from overseas economic woes. While most analysts thought the sticker shock of higher prices would be temporary, some thought the company needed to be more innovative, needed to do more than offer super-size drinks.[11] Other problems emanated from a racial discrimination lawsuit, as well as Mr. Ivester's "brassy"

[10] Frank, p. C2.

[11] Nikhil Deogun, "Coke's Slower Sales Are Blamed on Price Increases," *Wall Street Journal,* March 31, 1999, pp. A3, A4.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 38

attempts to make acquisitions such as Orangina and Cadbury Schweppes, angering overseas regulators and perhaps motivating them to make life difficult for Coca-Cola.

Such concerns paled before what was to come.

Contamination Scares

On June 8th, a few dozen Belgian schoolchildren began throwing up after drinking Cokes. This was to result in one of the most serious crises in Coca-Cola's 113-year history. An early warning had seemingly been ignored when in mid-May the owner of a pub near Antwerp complained of four people becoming sick from drinking bad-smelling Coke. The company claimed to have investigated but found no problems.

The contamination news could not have hit at a worse time. Belgium was still reeling from a dioxin-contamination food scare in Belgian poultry and other foods, and European agencies were coming under fire for a breakdown in their watchdog responsibilities. Officials were inclined to be overzealous in their dealings with this big U. S. firm.

The problems worsened. Coca-Cola officials were meeting with Belgium's health minister, seeking to placate him, telling him that their analyses "show that it is about a deviation in taste and color" that might cause headaches and other symptoms but "does not threaten the health of your child." In the middle of this meeting, news came that another fifteen students at another school had gotten sick.[12]

It was thought that the contamination came from bottling plants in Antwerp, Ghent, and Dunkirk that produced cans for the Belgium market. European newspapers were speculating that Coke cans were contaminated with rat poison.

Soon hundreds of sick people in France were blaming their illnesses on Coke, and France banned products from the Dunkirk plant. France and Belgium rebuffed Coca-Cola's urgent efforts to lift the ban and scolded the company for not supplying enough information as to the cause of the problem. The setback left Coke out of the market in parts of Europe because the company had badly underestimated how much explanation governments would demand before letting it back in business.

Not until June 17 did Belgium and France lift restrictions, and then only on some products; the bans were continued on Coca-Cola's Coke, Sprite, and Fanta. Then the Netherlands, Luxembourg, and Switzerland also imposed selective bans until health risks could be evaluated. Some 14 million cases of Coke products eventually were recalled in the five countries, and estimates were that Coke was losing $3.4 million per day in revenues. Case volume for the European division was expected to fall 6 to 7 percent from the year earlier.[13] The peak soft-drink summer season had arrived, and the timing of the scare could not have been worse.

The European Union requested further study as the health scare spread. At the same time, Coca-Cola and its local distributors launched an advertising campaign

[12] "Anatomy of a Recall: How Coke's Controls Fizzled Out in Europe," *Wall Street Journal,* June 29, 1999, p. A6.

[13] Will Edwards, "Coke Chairman Tries to Assure Europeans," *Cleveland Plain Dealer,* June 19, 1999, pp. C1, C3; and Nikhil Deogun, "Coke Estimates European Volume Plunged 6% to 7% in 2nd Quarter," *Wall Street Journal,* July 1, 1999, p. A4.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 39

defending the quality of their products. The company blamed defective carbon dioxide, used for fizz, for problems at Antwerp. It also said the outsides of cans made in Dunkirk were contaminated with a wood preservative during shipping. One company-commissioned study suggested that health problems were in the victims' heads. Meanwhile, the Ivory Coast seized 50,000 cans of Coke imported from Europe as a precautionary measure, though there was no evidence that anyone in the Ivory Coast had become ill by drinking imported Coke.

Problems continued to spread. All glass bottles of Bonaqua, a bottled water brand of Coca-Cola, were recalled in Poland because about 1,500 bottles were found to contain mold. This recall in Poland soon spread to glass bottles of Coke. Company officials believed the mold was caused by inadequate washing of returnable bottles. Barely a week later, the company recalled 180,000 plastic bottles of Bonaqua after discovering nonhazardous bacteria. Coca-Cola also had to recall some soft drinks in Portugal after small bits of charcoal from a filtration system were found in some cans.

Coca-Cola Finally Acts Aggressively

In the initial contamination episodes, Coca-Cola was accused of dragging its feet. Part of the problem in ameliorating the situation was the absence of an explanation by any top Coca-Cola officials. Ivester was criticized for this delay when he finally made an appearance in Brussels on June 18, ten days after the initial scare. He visited Brussels again four days later, meeting with the prime minister. Strenuous efforts to improve the company's image and public relations then began.

Ivester, in a major advertising campaign, apologized to Belgian consumers and explained "how the company allowed two breakdowns to occur." The ads showed his photograph along with these opening remarks, "My apologies to the consumers of Belgium; I should have spoken with you earlier." Ivester further promised to buy every Belgian household a Coke. A special consumer hotline was established, and fifty officials including several top executives were temporarily shifted from the Atlanta headquarters to Brussels.

Five thousand delivery people then fanned out across the country, offering a free 1.5-liter bottle of Coke's main brands to 4.37 million households. Around Belgium, Coke trucks and displays proclaimed, "Your Coca-Cola is coming back." In newspaper ads, the company explained its problems, noted it was destroying old products and using fresh ingredients for new drinks. A similar marketing strategy was planned for Poland, where 2 million free beverages were distributed to consumers.

Pepsi's Competitive Maneuvers Near the Millennium

Pepsi's Role in Coke's European Problems

Some thought that Coca-Cola's problems should have been Pepsi's gain. Yet Pepsi did nothing to capitalize on the situation, did not gloat, and did not increase advertising for its brand. Worldwide, Pepsi experienced some temporary gains in sales, most surprisingly in countries far removed from the scare—such as China. A Pepsi bottler in Eastern Europe probably expressed the prevailing company attitude when he observed that people were buying bottled water and juices, instead of soda pop:

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 40

"That's why we don't wish this stuff on anyone," he said, referring to the health scare.[14]

But Pepsi was not idle in Europe.

Pepsi's Antitrust Initiatives Against Coca-Cola

In late July 1999, European Union officials raided offices of Coca-Cola and its bottlers in four countries in Europe—Germany, Austria, Denmark, and Britain—on suspicions that the company used its dominant market position to shut out competitors. Coming at a time when Coca-Cola was still trying to recover from the contamination problems, this was a cruel blow. All the more so since such alleged noncompetitive activities affected its plans to acquire some additional businesses in Europe.

The raids were expected to lead to a full-blown antitrust action against Coke. The major suspicion was that Coke was illegally using rebates to enhance its market share. The several types of rebates under investigation were rebates on sales that boosted Coke's market share at the expense of rivals, and rebates given to distributors who agreed to sell the full range of Coke products or to stop buying from competitors.

Coca-Cola's huge market share in most countries of Europe fed the concern. See Table 3.3 for Coke's market shares of the total soft-drink market in selected countries in Europe.

While the market share of Coke was being scrutinized by European antitrust officials, the investigation was sparked by a complaint—filed by Pepsi—that Coke was illegally trying to force competitors out of the market.

Pepsi also filed a complaint with Italian regulators, and they were quicker to act. A preliminary report found that Coca-Cola and its bottlers violated antitrust laws by

TABLE 3.3 Coca-Cola's Market Share of Soft-Drink Market in Selected European Countries, 1998

France	59%
Spain	58
Germany	55
Central Europe	47
Italy	45
Nordic and Northern Eurasia	41
Great Britain	35

Source: Company published reports.

Commentary: The dominance of Coke in almost all countries of Europe, not surprisingly, makes it vulnerable to antitrust scrutiny.

[14] Nikhil Deogun and James R. Hagerty, "Coke Scandal Could Boost Rivals, But Also Could Hurt Soft Drinks," *Wall Street Journal,* June 23, 1999, p. A4.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 41

abusing a dominant market position through practices such as discounts, bonuses, and exclusive deals with wholesalers and retailers. The Italian regulators also said there was evidence that Coke had a "strategic plan" to remove Pepsi from the Italian market, one of the biggest in Europe, by paying wholesalers to remove Pepsi fountain equipment and replace it with Coke. At about this time, Australian and Chilean officials also began conducting informal inquiries in their markets.

Coca-Cola officials responded to the Italian report as follows: "We believe this is a baseless allegation by Pepsi and we believe that Pepsi's poor performance in Italy is due to their lack of commitment and investment there. As a result, they are attempting to compete with us in the courtroom instead of the marketplace."[15]

COKE FINDS TOUGH GOING IN NEW CENTURY WHILE PEPSI SURGES

For decades, Coca-Cola was a premier growth company with some of the best-known brands in the world, and management seemed well positioned to take advantage of the global economy. But we have just seen lapses in the late 1990s, particularly in handling contamination problems in Europe and in dealing with antitrust charges there. Going into the new century, the new millennium, problems seemed more subtle but with longer lasting concerns. Not that the old esteemed company was withering away, but rather that it faced a slowing growth trend. For example, Coke generated average annual earnings growth of 18 percent between 1990 and 1997. In recent years, its net income grew at just a 4 percent average. Share prices had fallen hard, in 2004 trading at less than half their 1998 peak. At the same time, PepsiCo, while it never quite caught Coke in the cola wars, outdid its rival in overall business growth. The following comparative statistics show the slipping performance of Coca-Cola to PepsiCo over the five years to 2004.

	Coke	Pepsi
Sales 2003	$21 billion	$27 billion
Sales growth (5-year average)	2%	4%
Earnings	$4.3 billion	$3.6 billion
Earnings growth (5-year average)	4%	12%
Stock price (5 years ending 12/3/04)	– 40%	38%

Source: Bloomberg Financial Markets as reported in Dean Foust, "Gone Flat," *Business Week,* December 20, 2004, p. 82.

Part of the problem facing Coke was an industry problem, but with its heavy emphasis on carbonated soft drinks, it became worse for Coke than for Pepsi. Consumers, more concerned with health and obesity, were seeking new kinds of

[15] Betsy McKay, "Coke, Bottlers Violated Antitrust Laws in Italy, a Preliminary Report States," *Wall Street Journal,* August 13, 1999, p. A4.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 42

beverages such as gourmet coffees, New Age teas, sports drinks, and waters. Carbonated beverages were no longer a growth sector of the market. One consultant said, "The carbonated soft-drink model is 30 years old and out of date."[16] Pepsi had pushed into the noncarb market with Tropicana juice, Gatorade sports drink, and Aquafina water, and these were billion-dollar beverage brands. Coca-Cola remained fixated on its flagship Coke brand, with sodas accounting for 82 percent of its worldwide beverage sales, far more than Pepsi. On the other hand, Pepsi not only had more strongly diversified into other non-carb beverages but also had its Frito-Lay Division with snack foods such as Lays, Doritos, and Baked Crunchy Cheetos; and then there was Quaker Oats that it acquired August 2001. (In 1997, PepsiCo had spun off its restaurant operations.) The following shows the breakdown of sales and profits for Pepsi's four major businesses as of 2004:

Percentage of Company Sales and Operating Profits		
Frito-Lay	34	41
PepsiCo Beverages	29	30
Quaker Foods	5	9
PepsiCo Int'l. (snacks and beverages)	32	20

Source: Public information as of 2004

Coke's Reluctance to Diversify

Critics blamed Coke's stubborn commitment to its four hallowed soda-pop brands—Coca-Cola, Diet Coke, Sprite, and Fanta—as going back to the sixteen-year reign of Roberto Goizueta, who guided Coke stock to a 3,500 percent gain in those years. Goizueta was the first CEO ever to break the $1 billion compensation barrier. After he died of lung cancer in 1997, he was almost deified, and his cola-centric philosophy became the gospel of the executives who followed and also of the aging board of directors.

The reluctance to diversify was evident when Coca-Cola decided against acquiring South Beach Beverage Company after negotiating two years. Pepsi made an offer and in weeks acquired the SoBe brand New Age juice company, which gave Pepsi access to a market completely bypassed by soda pop. Neville Isdell came out of retirement to head the company in May 2004, after earlier building distribution networks in India, Russia, and Eastern Europe. He showed the same conservative mindset of his predecessors and passed on the chance to acquire Red Bull, a promising energy drink. Isdell still believed in the growth potential of carbonated soft drinks and their 30 percent profit margins. Because of this conservatism, Coke now lacked a popular entry in the highly profitable energy-drink category to compete with what had become the market leader, Red Bull. Some analysts saw this reluctance to diver-

[16] Tom Pirko, president of Bev Mark LLC, as quoted in Dean Foust, "Gone Flat," *Business Week,* December 20, 2004, p. 76.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 43

sify as reflecting a corporate mind-set that still saw Coca-Cola as only a soda company, while Pepsi viewed itself as a beverage-and-snack company.[17]

Still, Coke had joined Pepsi and other firms in moving into bottled water by 2003, as this became the fastest growing sector of the beverage industry. Pepsi's Aquafina became the leading brand and was enhanced by a multimillion-dollar promotional campaign, while Coke, through acquisitions, amassed such brands as Dannon, Evian, and Dasani. However, Coke was less aggressive than its competitors in pursuing this market, and problems with Dasani further cooled the enthusiasm.

Other Problems

Ivester, CEO successor to Goizueta in the late '90s, in a desperate effort to try to sustain the profitability of the Goizueta era, imposed a 7.6 percent price hike on the concentrate it sold its bottlers. For decades, Coke had sold its beverage concentrate to U.S. bottlers at a constant price, no matter what price the soft drinks would later command at retail. Not surprisingly, these bottlers were now incensed and complained bitterly to the board and succeeded in pushing the already embattled Ivester to resign in late 1999. His successor, Douglas Daft, tried to work with them, but relations steadily deteriorated. Bottlers began fighting back with sharp increases in their retail prices of Coke. These hikes dampened sales of Coke but increased bottlers' profits. Some also refused to carry the company's new noncarbonated niche offerings, Mad River teas and Planet Java coffee; these flopped, and the company phased them out in 2003. Going into 2005, Isdell faced contentious bottler relations that needed to be addressed.

The C2 Disappointment

In the summer of 2003, Coca-Cola launched C2, a reduced-calorie, reduced-carb cola, with a $50 million promotional campaign. This was Coke's biggest product introduction since Diet Coke more than twenty years before. The company had expected this new beverage would help win back a critical consumer group—20- to 40-year-olds who were concerned about weight—and priced it at a 15 percent premium in the quest to achieve higher profits on its drinks. But sales of C2 fell nearly 60 percent a few weeks after the product introduction.

Isdell halted the premium pricing strategy to try to salvage the product, but still sales languished. The pricing strategy had been botched, as C2 at times retailed for 50 percent and more than regular Coke, especially on weekends when sodas were often discounted. Adding to the dissatisfaction with the higher prices, many consumers were critical of the taste, either too flat or with an aftertaste.

Advertising Miscues

Spending for advertising had become conservative during the reign of Ivester. He believed that the Coke brand could largely sell itself without a major commitment to

[17] Foust, p. 80; Leslie Chang, Chad Terhune, and Betsy McKay, "Coke's Big Gamble in Asia," *Wall Street Journal,* August 11, 2004, pp. A1, A6; "Behind Coke's CEO Travails: A Long Struggle Over Strategy," *Wall Street Journal,* May 4, 2004, pp. A1, A10.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 44

advertising. The result of a reduced ad budget was lackluster ads that failed to attract the important youth market. Instead, Ivester shifted resources into more vending machines, refrigerated coolers, and delivery trucks—"growth through distribution." But some of these expanded distribution sites, such as auto part stores, did not pay off.

Global Problems

Even Coke's global strength was becoming tarnished. Ivester's slowness in responding to the contamination scare in Belgium and France in 1999 was but the first misstep. Coke's plans to make Dasani bottled water into a global brand were slowed by an aborted launch in Europe after elevated levels of bromate, a cancer-causing substance, were detected in bottles in Britain. Declining sales in Germany and Mexico, two very important markets, put more pressure on developing such markets as China and India. Yet these looked years away from contributing significantly to Coke's profitability. The distribution and capacity that Isdell built in Eastern Europe in the 1980s and 1990s proved to be extravagant, and write downs eventually exceeded $1 billion.[18]

Meantime, Pepsi was nibbling away at Coke's international markets. Its antitrust case against Coke in the European Union was eventually settled years later, in October 2004, with Coke having to drop its controversial incentive discounts to retailers, and agreeing to share display space with rivals such as PepsiCo. So, the playing field was more leveled to Pepsi's benefit.

Coke's Board of Directors

Few firms could boast as prestigious a board of directors as Coke. Warren Buffett, one of the world's richest and most influential investors, was a major presence on the board. Ten of the 14 directors dated back to the Goizueta era and still espoused his policies of concentrating on the basic core of carbonated soft drinks with less emphasis on diversifying. Critics of the board accused it of micromanaging and being too conservative and blamed it for the difficulty in recruiting highly regarded candidates for top management jobs and not retaining the ones it had.[19]

The board played a major part in vetoing the acquisition of Quaker Oats, the maker of Gatorade. CEO Douglas Daft had reached an agreement to buy Quaker for $15.75 billion in stock. But the board overruled him, calling the price too expensive. PepsiCo snapped up the company instead. Daft was left to contemplate his lack of support by the board, and his loss of faith among his peers. He tenure was short lived, and Isdell replaced him.

ANALYSIS

Coke's Outlook at the New Millennium

The situation by 2005 did not come about suddenly. It gradually crept up until a deteriorating stock price confronted investors, managers, and analysts. Yet the company

[18] Terhune and McKay, p. A6.

[19] For example, see Dean Foust, pp. 79, 82; and "Behind Coke's CEO Travails," pp. A1, A6.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 45

was still healthy and profitable, but somehow the Coke name had lost its cachet and critics abounded. Then there was PepsiCo becoming more formidable all the time.

Proposals for dealing with the situation went to two extremes: (1) stick with the basics and simply do things better, or (2) vigorously diversify, even to non-drink areas as Pepsi had seemingly done successfully. The two approaches could be categorized as a mission of being a soda company versus an expanded mission of being a beverage-and-snack company. Coke's board, hearkening back to the glory days of Goizueta, was negative toward mergers and strongly favored doing a better job with the basic core, such as with advertising, distribution, and tapping international markets more aggressively. Critics, however, saw Coke as too wedded to the status quo and missing growth opportunities. Of course, there is a third option between the two extremes. This would look for suitable diversifications within the non-cola drink market, and even fortuitous and compatible non-drink additions, but without any mandate to go on a merger binge.

Several factors affect whatever direction the company eventually takes. One is the recent trend toward healthy lifestyles, and the foods and drinks that affect this either negatively or positively. Worrisome omens were appearing. Some schools were removing colas from their vending machines and school lunches. Advertisements and other publicity were trumpeting the health risks of fast foods and soft drinks. Was this the wave of the future, or merely a short-term phenomenon?

Then Coke needs to confront whether its days as a growth firm are over and if it is in the mature stage of its life cycle. The long-term consequences of this decision will hardly be inconsequential. In Chapter 2, McDonald's was facing some of the same issues and concerns as Coke. Disavowing aggressive growth—recognizing a mature life cycle—can be beneficial to investors, at least in the short run, since more profits are available for dividends. But the search for breakthrough diversifications should not be abandoned. The right one(s) might well put a mature firm on the growth path again.

What Went Wrong with the New Coke Decision?

The most convenient scapegoat was the marketing research that preceded the decision. Yet Coca-Cola spent about $4 million and devoted two years to the marketing research. About 200,000 consumers were contacted during this time. The error in judgment was surely not from want of trying. But when we dig deeper into the research, some flaws become apparent.

Flawed Marketing Research

The major design of the marketing research involved taste tests by representative consumers. After all, the decision point was whether to go with a different-flavored Coke, so what could be more logical than to conduct taste tests to determine acceptability of the new flavor, not only versus the old Coke but also versus Pepsi? The results were strongly positive for the new formula, even among Pepsi drinkers. This was a clear "go" signal.

With benefit of hindsight, however, some deficiencies in the research design merited concern. Research participants were not told that by picking one cola, they

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 46

would lose the other. This proved to be a significant distortion: Any addition to the product line would naturally be far more acceptable than completely eliminating the traditional product.

While three to four new tastes were tested with almost 200,000 people, only 30,000 to 40,000 of these testers tried the specific formula for the new Coke. Research was geared more to the idea of a new, sweeter cola than that used in the final formula. In general, a sweeter flavor tends to be preferred in blind taste tests. This is particularly true with youths, the largest drinkers of sugared colas and the very group drinking more Pepsi in recent years. Interestingly, preference for sweeter tasting products tends to diminish with use.[20]

Consumers were asked whether they favored change as a concept, and whether they would likely drink more, less, or the same amount of Coke if there were a change. But such questions could hardly prove the depth of feelings and emotional ties to the product.

Symbolic Value

The symbolic value of Coke was the sleeper. Perhaps this should have been foreseen. Perhaps the marketing research should have considered this possibility and designed the research to map it and determine the strength and durability of these values—that is, would they have a major effect on any substitution of a new flavor?

Admittedly, when we get into symbolic value and emotional involvement, any researcher is dealing with vague attitudes. But various attitudinal measures have been developed that can measure the strength or degree of emotional involvement.

Herd Instinct

Here we see a natural human phenomenon, the herd instinct, the tendency of people to follow an idea, a slogan, a concept, to "jump on the bandwagon." At first, acceptance of new Coke appeared to be reasonably satisfactory. But as more and more outcries were raised—fanned by the media—about the betrayal of the old tradition (somehow this became identified with motherhood, apple pie, and the flag), public attitudes shifted strongly against the perceived unworthy substitute. The bandwagon syndrome was fully activated. It is doubtful that by July 1985 Coca-Cola could have done anything to reverse the unfavorable tide. To wait for it to die down was fraught with danger—for who would be brave enough to predict the durability and possible heights of such a protest movement?

Could, or should, such a tide have been predicted? Perhaps not, at least regarding the full strength of the movement. Coca-Cola expected some protests. But perhaps it should have been more cautious by considering a worst-case scenario in addition to what seemed the more probable, and by being better prepared to react to such a contingency.

[20] "New Cola Wins Round 1, But Can It Go the Distance?" *Business Week,* June 24, 1985, p. 48.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 47

Pepsi, and Later Coca-Cola's, International Problems

Pepsi's Defeats in South America

With hindsight, we can identify many of the mistakes Pepsi made. It tried to expand too quickly in Argentina and Brazil, imprudently putting all its chips on a distributor with a checkered past, instead of building up relationships slower and more carefully. It did not monitor foreign operations closely enough or soon enough to prevent rash expansion of facilities and burdensome debt accumulations by affiliates. It did not listen closely enough to old distributors and their changing wants, and so lost Venezuela to Coca-Cola. Pepsi apparently did not learn from its past mistakes: For example, three times before, it had tried to enter Brazil and had failed. Why the failures? Why was it not more careful to prevent failure the next time?

Finally, we can speculate that maybe Pepsi was not so bad, but rather that its major competitor was so good. Coca-Cola had slowly built up close relationships with foreign bottlers over decades. It was aggressive in defending its turf. Perhaps not the least of its strengths, at least in the lucrative Latin American markets, was a CEO who was also a Latino, could speak Spanish and share the concerns, and build on the egos of its local bottlers. In selling, this is known as a dyadic relationship, and it is discussed further in the following Information Box. After all, why can't a CEO do a selling job on a distributor and capitalize on a dyadic relationship?

Coca-Cola's Problems in Europe

Could Coca-Cola have handled the Belgian crisis better? With hindsight, we see a flawed initial reaction. Still, the first incident of 24 schoolchildren getting ill and throwing up after drinking Coke seemed hardly a major crisis at the time. But crises

INFORMATION BOX

THE DYADIC RELATIONSHIP

Sellers are now recognizing the importance of the buyer-seller interaction, *a dyadic relationship.* A transaction, negotiation, or relationship can often be helped by certain characteristics of the buyer and seller in the particular encounter. Research suggests that salespeople tend to be more successful if they have characteristics similar to their customers in age, size, and other demographic, social, and ethnic variables.

Of course, in the selling situation, this suggests that selecting and hiring sales applicants most likely to be successful might require careful study of the characteristics of the firm's customers. Turning to the Pepsi/Coke confrontation in Brazil and Venezuela, the same concepts should apply and give a decided advantage to Coca-Cola and Roberto Goizueta in influencing government officials and local distributors. After all, in interacting with customers and affiliates, even a CEO needs to be persuasive in presenting ideas as well as handling problems and objections.

Can you think of any situations where the dyadic theory may not work?

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 48

often start slowly with only minor indications and then mushroom to even catastrophic proportions. Eventually, hundreds of people reported real or imagined illnesses from drinking the various Coca-Cola products.

The mistakes of Coca-Cola in handling the situation were (1) not taking the initial episodes seriously enough; (2) not realizing the intense involvement and skepticism of governmental officials, who demanded complete explanations of the cause(s) and were reluctant to lift bans; and (3) not involving Coke Chairman Douglas Ivester and other high-level executives soon enough. Allowing ten days to go by before his personal intervention was a long time for Ivester to let problems fester. Added to that, the quality-control lapses should not have been allowed to occur in the first place. Eventually, Ivester and Coke acted aggressively in restoring Coca-Cola but lost revenues could not be fully recovered.

Of interest in this environment of cola wars was Pepsi's restraint in not trying to take advantage of Coke's problems. This was not altruism but fear that the whole soft-drink industry would face decreased demand, so Pepsi did not want to aggravate the situation. Anyway, Pepsi saved its competitive thrusts for antitrust challenges.

With its great size and market-dominance visibility in country after country, Coca-Cola was vulnerable to regulatory scrutiny and antitrust allegations, especially when stimulated by its No. 1 competitor, PepsiCo. Does this mean that it is dangerous for a firm to become too big? In certain environments, such as facing a foreign competitor in some European countries, this may well be the case. The firm then needs to tread carefully, tone down inclinations toward arrogance, and be subtle and patient in seeking acquisitions on foreign turf.

WHAT CAN BE LEARNED?

Consumer Taste is Fickle

Taste tests are commonly used in marketing research, but I have always been skeptical of their validity. Take beer, for example. I know of few people—despite their strenuous claims—who can, in blind taste tests, unerringly identify which is which among three or four disguised brands of beer. We know that people tend to favor the sweeter in taste tests. But does this mean that a sweeter flavor will always win out in the marketplace? Hardly; something else is operating with consumer preference other than the fleeting essence of a taste—unless the flavor difference is extreme.

Brand image usually is a more powerful sales stimulant. Advertisers consistently have been more successful in cultivating a desirable image or personality for their brands, or the types of people who use them, than by such vague statements as "better tasting."

Don't Tamper with Tradition

Not many firms have a hundred-year-old tradition to be concerned with—or even twenty-five years, or ten years. Most products have much shorter life cycles. No

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 49

other product has been so widely used and so deeply entrenched in societal values and culture as Coke.

The psychological components of the great Coke protest make interesting speculation. Perhaps in an era of rapid change, many people wish to hang on to the one symbol of security or constancy in their lives—even if it's only the traditional Coke flavor. Perhaps many people found this protest to be an interesting way to escape the humdrum, by making waves in a rather harmless way, in the process of seeing if a big corporation might be forced to cry "uncle."

One is left to wonder how many consumers would even have been aware of any change in flavor had the new formula been quietly introduced without fanfare. But, of course, the advertising siren call of "New" would have been muted.

So, do we dare tamper with tradition? In Coke's case the answer is probably not, unless done very quietly, but then Coke is unique.

Don't Try to Fix Something That Isn't Broken

Conventional wisdom may advocate that changes are best made in response to problems, that when things are going smoothly the success pattern or strategy should not be tampered with. Perhaps. But perhaps not.

Actually, things were not going all that well for Coke by early 1985. Market share had steadily been lost to Pepsi for some years. So it was certainly worth considering a change, and the obvious one was a different flavor. I do not subscribe to the philosophy of "don't rock the boat." But Coke had another option.

Don't Burn Your Bridges

Coke could have introduced the new Coke but kept the old one. Goizueta was concerned about dealer resentment at having to stock an additional product in the same limited space. Furthermore, he feared Pepsi emerging as the No. 1 soft drink due to two competing Cokes. This rationale was flawed, as events soon proved.

Consider the Power of the Media

Press and broadcast media are powerful influencers of public opinion. With new Coke, the media exacerbated the herd instinct by publicizing the protests. News seems to be spiciest when someone or something can be criticized or found wanting. We saw this fanning of protests in Coke's contamination problems in Europe, to the extent that some people came up with psychosomatic illnesses after drinking Coca-Cola products. The power of the media should not only be recognized but also be a factor in making decisions that may affect an organization's public image.

International Growth Requires Tight Controls

In Pepsi's problems with Baesa, we saw the risks of placing too much trust in a distributor. One could question the selection of Charles Beach to spearhead the Pepsi invasion of Coke strongholds in South America. Prudence would dictate

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 50

close monitoring of plans and performance, with major changes—in expansion planning, marketing strategy, financial commitments—approved by corporate headquarters. In international dealings, the tendency is rather to loosen controls due to the distances, different customs and bureaucratic procedures, and unfamiliar cultures. We will see an extreme example of this later in the Maytag case.

The Human Factor May Be More Important in International Dealings

Rapport with associates and customers may be even more important in the international environment than domestically. The distances involved usually necessitate more decentralization and, therefore, more autonomy. If confidence and trust in foreign associates are misplaced, serious problems can result. Customers and affiliates may need a closer relationship with corporate management if they are not to be wooed away. Furthermore, in some countries the political climate is such that the major people in power must be catered to by the large firm wanting to do business in that country.

Sound Crisis Management Requires Prompt Attention by Top Management

The chief executive is an expediter and a public relations figure in crises, particularly in foreign environments. Ivester's delay in rushing to Belgium may have held up resolution of the crisis for several weeks, and it cost Coca-Cola millions in lost revenues. No other person is as well suited as the CEO to handle serious crises. Some sensitive foreign officials see an affront to their country without top management involvement and are likely to express their displeasure in regulatory delays, calls for more investigations, and bad publicity toward a foreign firm. In the case of Coca-Cola, even though Ivester eventually made a conciliatory appearance, by that time some countries were receptive to antitrust allegations made by Pepsi against Coca-Cola.

Beware of High-Margin Insistence to the Neglect of Other Worthy Products

It is natural for executives to want to push the higher margin goods. After all, profitability deserves priority, everything else being equal. But often, lower margin goods may yield more total profits because of greater sales volume. Similarly, raising prices will produce higher margin per item, but lower volume may adversely affect total profits. In recent years, Coca-Cola hurt itself by concentrating on the higher margin cola drinks, to the neglect of other growth opportunities, and by injudiciously raising prices of its concentrate to bottlers, thus jeopardizing bottler relations.

CONSIDER

Can you think of other learning insights?

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 51

QUESTIONS

1. In the new Coke fiasco, how could Coca-Cola's marketing research have been improved? Be a specific as you can.
2. When a firm faces a negative press—as Coca-Cola did with the new Coke, and almost 15 years later in Europe—what recourse does a firm have? Support your conclusions.
3. "If it's not broken, don't fix it." Evaluate this statement.
4. Do you think Coca-Cola engineered the whole scenario with the new Coke, including fanning initial protests, in order to get a bonanza of free publicity? Defend your position.
5. Critique Pepsi's handling of Baesa. Could it have prevented the South American disaster? If so, how?
6. With hindsight, how might Enrico, CEO of PepsiCo, have kept Cisneros, his principal bottler in Venezuela, in the fold instead of defecting to Coke?
7. How could Coca-Cola have lessened the chances of antitrust and regulatory scrutiny in Europe?
8. Do you think Pepsi can ever make big inroads in Coke's market share in Europe? Why or why not?
9. A big stockholder complains, "All this fuss over a few kids getting sick to their stomach. The media have blown this all out of proportion." Discuss.
10. Do you think Coca-Cola is still a growth company? Why or why not? Defend your reasoning.

HANDS-ON EXERCISES

1. Assume that you are Robert Goizueta and that you are facing increased pressure in early July 1985 to abandon the new Coke and bring back the old formula. However, your latest marketing research suggests that only a small group of agitators are making all the fuss. Evaluate your options and support your recommendations to the board. (Do not be swayed by what actually happened—maybe the protests could have been contained.)
2. As a market analyst for PepsiCo, you have been asked to present recommendations to CEO Roger Enrico and the executive board, for the invasion of Brazil's soft-drink market. The major bottler, Baesa, is already in place and waiting for Pepsi's final plans and objectives. You are to design a planning blueprint for the "invasion," complete with an estimated timetable.
3. You are a staff assistant to Ivester. It is 1998, and he has just assumed the top executive job with Coca-Cola. One of his first major decisions concerns raising soft-drink prices over 7 percent to improve operating margins and make up for diminished revenues in a depressed European market. He wants you to provide pro and con information on this important decision.

031-52.Hartley_mk_10e.Ch03 9/28/05 7:00 PM Page 52

TEAM-DEBATE EXERCISES

1. Debate the issue of whether Coke is in a mature stage of the life cycle or whether it is still in a growth stage. In the course of the debate, each side should consider how best to maximize its performance.
2. Debate Ivester's plan to distribute millions of free bottles of Coke products to people in Belgium and Poland. In particular, debate the costs versus benefits of this recovery strategy. Are the benefits likely to be worth the substantial cost?

INVITATION TO RESEARCH

What are the newest developments in the Cola wars? Has Coke lost market share in Europe? Has Pepsi been able to make any inroads in Latin America? How do the two firms stack up in profitability? Have there been any innovations in this arena? How has the bottled water battleground gone for the two rivals? How are their stock prices faring?