

Coke Loses Some Fizz

Richard D. Freedman and Charlene Butterfield

**New York University
Leonard N. Stern School of Business
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In the Beginning

Founded in Atlanta in 1886, Coca-Cola grew steadily from a local business to a multinational institution. In the last century, Coke became the ubiquitous symbol of American business in virtually every country around the world. "Coca-Cola was seen as the godhead of American consumerism,"¹ having beaten back archrival Pepsi during the "Cola Wars" of the 1980's, in which Pepsi waged a campaign of advertising and taste tests to win customers away from Coke. Coke responded with even stronger marketing and capitalized on its vast distribution network to regain its customers. When the war was over, Coke emerged with an even greater share of the soft drink market and is generally recognized as the dominant player in the global soft-drink industry.

At Coke, cola was the central focus. CEO Roberto Goizueta had built up the brand in the 1980's by investing heavily in emerging markets, most notably in Europe, Russia, and Southeast Asia. Goizueta's belief was that "the company could instill a craving for products like Coca-Cola and Sprite all over the world, from the foothill shantytowns of Venezuela to the boulevards of Paris and Berlin."² Everything at Coke was staked upon the success of the cola, also known as "Georgia coffee."³ Marketing campaigns, determined in Atlanta, emphasized Coca-Cola over other brands in the company's portfolio around the world.

To ensure Coke's preeminence, Goizueta engineered the consolidation of the vast bottling network into 10 anchor bottlers. Under his guidance, the system became "the most powerful distribution channel on earth"⁴. Coca-Cola Enterprises (CCE), the lynchpin of the network, produces 70% of Coke's products in the U.S. and European region. This independent bottler is 40% owned by Coke. Under the bottling system, Coca-Cola produces the cola concentrate in Atlanta, sells the syrup to the bottlers, who in turn distribute the soft drinks to retailers (vending machines, bars, restaurants, supermarkets). Coke centralized concentrate production and marketing in Atlanta, "leaving the heavy lifting--drink production, purchase of delivery trucks, product delivery, and execution of local marketing" to the bottlers worldwide⁵. During the 1980's, under Goizueta, Coke's stock price rose 4,000%, and its market value increased 34 times from \$4.3 billion to \$147 billion. The company had "the world's greatest brand" and a 70% share of the U.S. soft-drink market⁶.

Under the leadership of M. Douglas Ivester, who became CEO following Goizueta's death in 1997, the company encountered a series of problems. The stock price traded far below its peak during the early 1990's, profits declined seven quarters in a row, and market share dwindled as a result of increasing competition in local markets from local brands. In addition, Coke made two failed takeover attempts, incurred antitrust violations and caused a health scandal in Europe. Lastly, African-American employees filed a race discrimination suit that resulted in a great deal of negative publicity.

Antitrust Problems

New CEO Ivester attempted to continue Goizueta's success in overseas markets by bidding for the French Orangina brand. In the fall of 1997, Coke made an \$820 million bid for the Orangina unit of Pernod-Ricard SA⁷. The price seemed high for a company whose annual sales totaled \$188 million in 1996. Even at the steep price, the acquisition was valuable for Coke because it would allow for extensive distribution of the French drink through the Coke bottling network. International consumption of the French brand would increase, resulting in greater revenue for Coca-Cola. Most importantly, Coke would gain added distribution for its cola and other sodas in French bars, restaurants, and outlets wherever Orangina was sold and force Pepsi to find another distributor. Years earlier, Pepsi had struck a distribution deal with Orangina in France that allowed Pepsi to be sold in retail locations where Orangina was sold. Once Coke acquired Orangina's distribution network, Pepsi would lose a great deal of its distribution in France; Coke's market share of 59% would be boosted to 70%.⁸ As for Pernod, it wanted the income from the sale to grow its core wine and spirits business. Both sides found the proposal greatly profitable.

The French government did not agree with Coke's proposal and rejected the deal before it could get off the ground. It judged that Coke's profit would come at Pernod's expense. The French government was fearful that Coke was simply using the takeover to squeeze Pepsi out of the market. It seemed that what Coke considered "aggressive yet honest competition" [was] perceived in Europe as abrasive, domineering, and unacceptable American behavior."⁹ Moreover, given Coke's emphasis on cola, the French worried that the Orangina brand would receive little attention at Coke. If Coke was to assume Pernod's distribution and eliminate Pepsi in the process, Coke would have very little competition in France. The thought of an American company having a controlling presence of the French soft-drink market was anathema to the French, and they barred the acquisition.

In response, Coke submitted a revised bid of \$762 million that included a condition promising the transfer of on-premise distribution of Orangina to a third party for a 10-year period.¹⁰ Again, the French government vetoed the proposal, ruling the acquisition would not "make enough of a contribution to economic progress to compensate for the risks of distortion of competition in the carbonated, noncola, on-premise soft-drink market."¹¹ Pepsi saw the ruling as a victory for its European operation since it was able to retain its distribution system. A disappointed Pernod executive summed up the general attitude of many Europeans saying, "Pernod-Ricard is the victim of a planetary conflict between Pepsi and Coca-Cola"¹². With the French ruling, Coke's hope for acquisition had been publicly dashed. According to someone close to the company, "Coke got early signals of the French decision, and some people close to Ivester recommended

he withdraw the bid before the turndown was announced."¹³ However, Ivester persisted with the revised bid. As one observer stated, "the company lost an incredible amount of credibility with Orangina. It's not smart to give up all your political credits for 10 cases of something"¹⁴.

Later that same year, Coke tried to buy competitor Cadbury Schweppes' overseas brands. Although the deal was permitted in 161 countries, it was "initially blocked in several countries, including Australia, Mexico, and in Europe, on the argument that Coke already had too much market power."¹⁵ As with the Orangina bid, Coke was attempting to increase its market share by buying additional carbonated brands. At the same time, Coke would gain more distribution outlets, leaving very few or no distributors for Pepsi. At one point during the takeover attempt, a European official accused Coke of "trying to circumvent the European Union and pull the wool over our eyes."¹⁶ In trying to garner even more market share from competitors, Coke again raised European fears that the huge American company would stop at nothing to eliminate and control competition in the European market. Coke reacted as it had in France: The company "took the view that this was a legal process similar to FTC [Federal Trade Commission] hearings in the U.S. They completely missed the point that it's political."¹⁷ In order to close the deal, Coke bought Cadbury Schweppes' brands except in Europe, forsaking a key market.

In early 1998, Coke encountered trouble in Italy. Pepsi was able to "slow down Coke through the courts. Pepsi filed complaints that "helped launch both...Italian and EU [European Union] investigations"¹⁸ of Coke's competitive behavior. Officials conducted an 18-month investigation of both Coke's Italian unit and its chief bottler Bevande Italia on the grounds that it was abusing power in the Italian market to squeeze Pepsi from competition. The Italian antitrust authority fined Coke and Bevande Italia \$16.1 million for giving "certain wholesalers and retailers...discounts on Coke only on the condition that they reduce or eliminate competitors' products."¹ Coke said that the authority defined the market too narrowly and that it did not have a large position in the beverage market as a whole (12% of the total market).²⁰ Coke officials said that they would appeal the ruling at a later date.

A year later, in Belgium, Coke and its largest bottler, CCE, began "Operation Restore" to rebuild its image after a European health scare earlier that summer²¹. CCE, Coke's Belgian distributor, started a promotional campaign giving free drinks to 60,000 hotel and catering outlets in Belgium. However, the Brussels Commercial Court deemed it "an illicit practice whereby the defendant abuses his dominant position"²². An executive of the plaintiff company, Chaudfontaine, said, "they were giving away free crates of Coca-Cola, Coke Light, Fanta, and Sprite. All this is pressure on these people [hoteliers] to purchase their products later on."²³ Chaudfontaine called Coke's campaign an "attempt to gain new customers under the pretense of rebuilding its public image."²⁴ The Belgians were afraid that Coke would use its considerable market power to dominate the soft-drink market entirely, leaving little or no room for other competitors. Again, as in Italy, Coke defended its actions, and said that it would appeal the decision.

Coke has also violated antitrust regulations in the U.S. In Daingerfield, Texas, a court recently ruled that "Coke and CCE [are] guilty of breaking antitrust laws through their demands for exclusive advertising, displays, sign, and vending machines."²⁵ Coke and CCE must pay

damages of \$15.6 million.²⁶ Royal Crown bottlers (makers of RC Cola) filed the suit six years ago, outraged by Coke's tactics. They contend that, "Coke tried to keep them out of supermarkets and convenience stores. Coke...exhorted store owners to sign increasingly restrictive marketing agreements that benefited it at the expense of other brands."²⁷ Small independent bottling competitors felt thwarted by Coke's power over regional retailers. One plaintiff bottler said, "he would find his ice barrels--which he had left near the cash register [of a convenience store], packed with ice and RC Colas to attract buyers--had been turned upside down and left at the side of the road. Storeowners told him that he could not put up signs advertising his drinks. A big refrigerated case he bought for a store in Eudora, Arkansas, and filled with Royal Crown, traditionally priced lower than Coke, simply vanished one day.... Coke emptied it and took it around to the back of the store."²⁸

Similar complaints have been registered outside the Texas market. For example, in Tucson, Arizona, a 7Up bottler says he routinely has trouble advertising his products through stores that have signed marketing agreements that favor Coke. Through its size and market power, Coke is able to "make sure rival brands remain all but invisible."²⁹ The company threatens retailers with the possibility of "having to pay higher wholesale prices" than their competitors, and the small retailers are forced to submit to Coke's marketing practices³⁰.

Coke used its bottling system to its advantage in several regions. Its marketing tactics benefit not only Coca-Cola but its bottlers as well. Because of Coke's partial ownership of its bottlers, an increase in market share for one benefits the other. As part of its marketing agreements, "Coke demands preferential treatment in areas where its bottlers also handle Dr. Pepper. That can give the bottler 70% of the soft-drink market in many areas. Dr. Pepper concentrate is made by a unit of Cadbury Schweppes, but in many areas, the drinks are packaged and distributed by a Coke bottler."³¹ In receiving preferential treatment for Dr. Pepper bottlers, Coke is able to squeeze less powerful competitors from the market. In its defense, Coca-Cola called the verdict "incorrect.... [Plaintiffs] presented a case that there was a lack of competition. There was too much competition."³²

Product Contamination

The forced ending of "Operation Restore" was the second time that Coke had encountered problems in Belgium. In Bornem, Belgium, on June 8, 1999, several middle school children began vomiting after consuming Cokes. Children noticed, "that the Cokes they bought in the school cafeteria smelled bad."³³ Many of the children were rushed to a hospital but were pronounced fine upon examination. CCE officials picked up soda from the school and detected an "acid type of odor" emanating from them.³⁴ That night CCE officials decided to recall drinks made in Antwerp on June 2-4 for testing.

On June 9, the day after the incident in Bornem, CCE sent a letter of apology to the school and offered to pay for all related medical expenses. The letter stated that the "company had launched an investigation and that analysis showed that a deviation in taste and color does not threaten the health of your child."³⁵ Despite the denial of serious health hazards, the Belgian bottler was apparently stalling for time. CCE was awaiting more detailed analysis from Coca-Cola's laboratories and clearance from corporate headquarters in Atlanta before a decision or public

announcement could be made. A few days later, CCE tested the Cokes made in the Antwerp plant and found the origin of the contaminant. The carbon dioxide at Antwerp, where the Bornem Cokes were produced, was contaminated "with trace amounts of carbonyl sulfide and hydrogen sulfide.... Neither should have been present."³⁶ Worse than the CO₂ being contaminated was that "CCE didn't detect the contaminants. The plant either never received or lost a "certificate of analysis" for [CO₂] that arrived on June 4 from Aga Gas AG of Sweden. Without such a certificate, the gas shouldn't have been used, according to Coke' rules."³⁷ Worse still was that "workers at the Antwerp plant failed to perform a routine test...to confirm that the batch of carbon dioxide smelled and tasted fine."³⁸

When the first news broke, Ivester, on vacation in Paris, flew home to Atlanta. There, he awaited lab confirmation that there were no significant health risks before making a public admission of guilt. In the first few days of the crisis, he kept silent. "It was like a pitcher who wasn't throwing any strikes and the bases are loaded."³⁹ The Atlanta office was denying any wrongdoing while awaiting word from Belgium so that they could instruct the CCE plant as to what needed to be done.

However, the trouble was far from over. On June 8, the same day as the Bornem incident, there were complaints regarding the "foul-smelling Coke cans from a vending machine" in Bellsele, Belgium.⁴⁰ The sodas in the vending machine, made in Dunkirk, France, did not cause any illnesses that day, but then on June 10, students and a teacher fell ill in Bruges, Belgium, after drinking sodas from the Dunkirk bottler. Then while Coke officials were trying to assuage the Belgian health minister's fears in a meeting on June 11, a call came to the minister's office to say that students at Holy Heart school at Harelbeke, Belgium, had also gotten sick after consuming Coke or another Coke brand, Fanta Orange. Upon hearing the news, the health minister banned all Coke products made in Antwerp and Ghent, saying, "I don't negotiate, I decide"⁴¹. The French authorities launched their own investigation of the Dunkirk plant. Coke then began a recall of drinks made in all Belgian plants, as well as in Dunkirk, France.

On June 14, a director of a parochial school in Lochristi, Belgium, inquired about the soda in the school's vending machines. Coke officials told him to remove all cans with DU, DV, and DW on the bottom.⁴² After removing the cans, children still complained of stomach and head pain. The affected students were sent to the hospital, and the school director, Mr. DeGeeter, called Coke again to complain, only to be told that the list of codes should have included DX and DP. Mr. DeGeeter lamented, "for such a big company, they have very bad communications"⁴³.

On June 15, France went on to ban sales of products of the Dunkirk plant after hundreds in France reported Coke-induced illnesses. That evening, in Brussels, CCE finally announced that fungicide was the explanation for the Dunkirk problem and contaminated CO₂ was the cause of the problems in Antwerp. The explanation did nothing to lift the sales bans in Belgium and France. "CCE's explanation was vague and different officials used different terms to describe the problems. Various CCE and Coca-Cola executives called chemicals [on the wood pallets in which sodas are shipped and that were contaminated with fungicide that rubbed off onto the cans during shipping] fungicide, wood preservative, antiseptic, phenol, and creosote."⁴⁴ Government officials in France and Belgium, looking for answers, were left confused. "That a company so

very expert in advertising and marketing should be so poor in communicating on this matter is astonishing," said France's health minister.⁴⁵

On June 18, Coke called in Robert Kroes, a toxicology professor at Utrecht University in the Netherlands. With no time for lab work, Coke supplied Kroes "with data from its own labs and from a Dutch research organization on contaminants found on or in containers."⁴⁶ From the data, Kroes concluded, "there was no health risk."⁴⁷ Coke then used Kroes' report as proof that "the levels of impurities found by the labs were too small to be a health risk."⁴⁸ What's more, back in Atlanta and in Belgium, Coke "refused to publicly release the results of the test from the independent laboratories, and touted the theory that many of the issues were psychosomatic, not physical"⁴⁹.

Still facing sales bans and public outrage in Europe, Ivester issued an apology simultaneously in several newspapers and broadcasts on television. The contamination problems were widely publicized in the U.S. as well as European media. It had become a public relations nightmare. Although the company continued to downplay the severity of the health problems, Coke apologized for the lapse in quality control and for the distress it caused. Most saw the apology as a belated attempt to save face rather than an acceptance of accountability. "I sincerely apologized, and I meant it," said Ivester in the company's defense.⁵⁰ Observers thought the apology was inadequate since it came at the end of the crisis, not directly following the first illnesses in early June.

After Ivester personally lobbied Belgium and France, the sales bans were lifted and Coke resumed normal sales and production functions there. When all was said and done, 14 million cases of Coke products had been recalled across Europe, CCE took a \$60 million write-off in the second quarter of 1999 and lost operating profits of about \$35 million. Coke's image was severely damaged, and sales were sluggish.⁵¹

Bottler Woes

In 1986, suffering from high levels of debt and needing a stronger distribution network, Coke spun off its in-house bottlers. Coke was able to significantly improve its balance sheet by selling its bottlers. In doing so, it reduced its debts and increased its assets by the profits it made by the sale. Over the next several years, Coke acquired underperforming bottlers and sold them to successful bottlers, forming a system of 10 anchor bottlers. Coke targeted bottlers that operated in more than one country, had strong management, growth plans similar to Coke's expansion blueprint, and had money to buy new plants, trucks, and vending machines.⁵² Most importantly, the bottlers had to agree to sell Coke anywhere from 20% to 49% of its operations and guarantee Coke a spot on their boards.⁵³

Under the anchor system, "Coca-Cola pick[ed] key bottlers across the globe to fuel its worldwide marketing push, and in return gave these operations first dibs on buying other operations in the area. [Coke took] what was there and [made] it a better bottler system.... It's wise because [Coke has] clear partner[s] where they still control direction."⁵⁴ Coke created its largest bottler, CCE, by "paying \$3 billion for two large bottlers in the South and West, plus several smaller operations. By offering a [portion of the company] to the public, Coke hoped to get the best of

both worlds: it could keep its balance sheet clean because CCE would carry the \$3.1 billion in acquisition debt, and some of that would be paid down with the \$1.2 billion raised by the offering. At the same time, the [minority] stake Coke retained would guarantee it some control of its retail and distribution destiny."⁵⁵

CCE, like all of Coke's bottlers performs 90% of the business of getting Coke products to consumers. "From its headquarters in Atlanta, Coca-Cola directs a global system for bottling and distributing the world's most popular soft drinks."⁵⁶ In short, Coca-Cola makes all major strategic and marketing decisions in Atlanta and bottlers like CCE execute that strategy. The bottlers' main task is to produce and sell Coca-Cola to consumers worldwide. In some key markets, bottlers may sell other beverages on behalf of Coke, such as in Brazil, where bottlers sell beer, but only with permission from Atlanta and never at the cola's expense. With bottlers taking care of distribution, Coke concerns itself with concentrate production and the formulation of worldwide marketing campaigns. By producing only low-cost concentrate and marketing a single message worldwide, Coke is able to achieve scale economies; the higher cost activities, such as distribution, are left to the bottlers. The ability to "concentrate on concentrate" allowed Coke to reap efficiencies without becoming mired down in the bottling process. "Coca-Cola ...[relies] on a handful of bottlers with huge operations...[so that] it can concentrate solely on how to sell more soft drinks."⁵⁷ The system proved ingenious, helping to boost Coke's performance and turn several bottlers into multibillion-dollar companies. The anchor bottlers were so successful at distribution that by 1997 the "average consumer [was drinking] more than 400 servings of Coke products each year."⁵⁸

By 1998, it seemed as though the idea of independent bottlers was turning sour. Coke had "over the years, sapped its bottlers' profits in order to boost its own. Coke charged its bottlers top dollar [during the '80's and '90's] to acquire bottling franchises in certain territories--Venezuela, South Korea, Italy--"as if Coke expected no economic crises for the next 20 years. The bottlers, eager to expand, paid up. Particularly as economies in Asia and Latin America cratered [in the early 1990's in Latin America and in 1998 in Asia], volumes went down. "Coke got what it wanted [significant global presence], but the bottler's profit eroded."⁵⁹ Many emerging markets in which Coke had invested heavily were closely linked so that as each currency fell in value, many other markets were pulled under as well. The devaluation of currencies in Asia in 1998 led to decline in local demand for Coke products. Coke and many of its bottlers were hurt as the companies depended on Asian markets for key revenues. Despite the "spreading financial contagion,"⁶⁰ Ivester kept pushing bottlers to spend on new trucks, vending machines, and coolers so that the statistic [of 400 annual servings of Coke products] could rise to 500 servings."⁶¹ Bottlers resented Ivester's heavy-handedness. "We've made the investments they wanted, and we're still waiting for the payoff," said one bottler⁶².

1998 was a bad year for Coke and its bottlers. The expansion into Russia proved most problematic. The Cola War was being fought on a global basis. Pepsi had dominated the Soviet market during the Cold War, becoming synonymous with cola in the eyes of the Soviet public. Once the Iron Curtain fell in the early 1990's, Coke saw an opportunity for a counterattack on Pepsi's market share. Coke waged an onslaught of investments in Russia, building bottling plants and creating a distribution network across Russia. "Since April 1994, Coke and its bottlers...invested about \$750 million to build 12 plants in Russia. [By 1999], sales volume

there declined by one-third since the August devaluation of the ruble. Four of [Coke's] Russian plants were opened just 16 months ago. Two of the 12 [were not] producing soft drinks, but simply functioning as distribution centers. Overall in Russia, the Coke system, as Coke and its bottlers collectively are known, [was] expected to operate at about 50% of its capacity in 1999."⁶³

In other places around the globe, Coke and its bottlers fared poorly as well. "As economies in Russia, Asia and Latin America flounder[ed], sluggish demand abroad and weak foreign currencies [battered] the bottom line at Coke, renowned for its consistent 15% to 20% earnings growth. The economic crisis in Brazil, Coke's third-largest market in volume terms, put further pressure on the Coke empire, especially since Brazil's woes spread to the rest of Latin America, the company's fastest-growing region. Coke already was struggling in Brazil, losing 10 percentage points of market share in the past five years, despite investing \$1.4 billion there between 1995 and 1997. In Venezuela, where the Coke bottlers spent \$1 billion on an acquisition, Coke faced declining demand and an aggressive counterattack from Pepsi. In China, where the Coke system has spent \$80 million and built 23 plants, sales volume increased 20% last year, but that growth could be vulnerable should the Chinese economy slow sharply."⁶⁴ "To many industry executives, Coke simply expected too much growth. If there's one thing to question, it's how quickly and how much they did at the same time. That's an aggressive strategy; it puts pressure on the whole system," observed a former bottling executive."⁶⁵

Despite the pressure, Ivester continued to maintain a significant presence abroad, "steadfastly spending on marketing and keep[ing] products inexpensive. A prominent investor felt confident despite the financial difficulties, stating "It's inevitable that in some places you over-invest, but I'd rather be there [in Russia] with the proper infrastructure than not be there."⁶⁶ As a result of international difficulties, "the Atlanta soft-drink giant's net income declined, falling 14% in 1998, to \$3.53 billion. Coke shares were down 30% in February 1999 from their July high and finished 1998 essentially flat."⁶⁷

To make matters worse for the bottlers who were suffering from the economic downturn, Coke began charging higher prices for concentrate. There were even accusations that Coke was "greedily profiting at [bottlers'] expense by raising concentrate prices.... bottlers in some key markets had too much concentrate on hand, suggesting that Coke had stuffed the pipeline to meet its own volume targets."⁶⁸ Coke repeatedly denied the accusations, but bottlers were still frustrated at having to pay more for a product of which they already had too much and were having difficulty selling.

Even the most successful bottler was ailing. When the European health scare began in June 1999, CCE's problems began as well. By December of that year, its stock price was \$18, down from \$37 in June.⁶⁹ Later, in the first quarter of 2000, CCE said that it would not meet its growth target for the year in both the U.S. and Britain. Domestic volume for CCE was forecasted to grow only 1% to 2%, instead of 2% to 3%.⁷⁰ In Britain, CCE's difficulties led to a shortfall in operating profit. "Cheaper Coke products [were] shipped into Britain from EU countries outside CCE's territory."⁷¹ The weak euro made products from Eastern Europe more attractive. A sizable portion of the Coke products sold in Britain was coming from the Baltic region, where they could be made cheaply. Baltic bottlers had too much concentrate and needed to sell it. In fact,

they were able to sell it for 950% more in the U.K. than other parts of Eastern Europe. "It is unclear whether Coke and its bottlers can do anything to halt the flow of products from European Union countries, because the practice is accepted and supported by European law."⁷² As a result of the competition from the European Union, Coke's "wholesales business in Britain was being displaced by products brought in from elsewhere."⁷³ CCE plans to "lay off 300 people in London and use the estimated \$20 million in savings for sales efforts."⁷⁴

The picture did not look much brighter for CCE in the U.S. Domestic sales declined in 1999 as prices in supermarkets increased. The higher prices were a joint decision by Coke and its bottlers after "years of unprofitable promotions."⁷⁵ However, the higher prices have given consumers yet another reason to turn to "other drinks, including store-brand colas. Private label soft drinks have 12% of the total soft-drink market."⁷⁶

CCE's and other bottlers' troubles resulted in financial loss for Coke. In the 1999 annual report, Coke recorded a loss of \$184 million on bottling investments, on which it earned \$32 million the year before.⁷⁷ In the fourth quarter of 1999, Coke wrote down \$543 million as a result of underperforming investments in Russia, the Caribbean, the Middle and Far East, and North America.⁷⁸

Competition

Apart from the price competition that CCE faced in Britain and the U.S. as a result of cheaper foreign product; Coke's market share was being eroded in the U.S. and abroad by noncarbonated drinks, such as Gatorade and Powerade. Consumer tastes had been changing, right under Coke's nose: "...people...have cut way back on their soda consumption. For years, consumers have been moving in droves toward juice, bottled water, tea, and other noncarbonated beverages."⁷⁹ However, Coke continued to put its energy into marketing the cola above all else. "Over the years, Coke has tended to treat its noncarbonated offerings as second-class beverages, giving them far less aggressive marketing than the flagship product. "I don't think we've gone after [alternative categories] with our heart and soul," said one executive.⁸⁰

Reality began to sink in at Coke as it has watched "consumers become pickier, more penny-wise, or a little more nationalistic. [They] are spending more of their money on local drinks whose flavors or brand names are not part of the Coca-Cola lineup."⁸¹ As Jerry Wind, a marketing specialist, states, "The world is heterogeneous. You have local preferences and tastes."⁸² Bottlers formerly owned by Coca-Cola became independent companies beginning in 1986, with Coke retaining a significant minority interest in each of the companies. Coke believed that "by the mere fact that Coke was Coke, they could sell it"; the assumption was that the company could dictate public tastes, not the other way around.⁸³

Local competitors worldwide saw Coke's emphasis on cola as a golden opportunity to introduce brands that appealed to local tastes, such as Antartica brand Guarana soda in Brazil. The Antartica brand proved highly successful, and it was not until Coke products lost market share there that Coke introduced its own brand of Guarana in response. In India, Coke developed Thumbs Up cola and in Peru, sells Inca Cola. Despite the success of these local brands, local product development for Coke proved to be isolated events.

For the most part, "the company ran global [marketing and product development] campaigns, and local divisions never had creative [or operational] control," says a Coke executive.⁸⁴ "They were ignoring the local flavors for years.... Maybe there was no one there who understood the environment, we didn't listen to them," said then senior vice-president Douglas Daft. "We had backups [product development executives] in Atlanta in case people failed [in local markets], monitoring them, constantly checking on information and receiving information."⁸⁵

The lack of belief in the importance of the idiosyncratic tastes in local markets made new product development difficult. Coke "used to control its products rigidly from headquarters in Atlanta."⁸⁶ "A local manager who wanted to shift advertising dollars among brands [or launch new drinks] had to wait for clearance from Atlanta before doing so."⁸⁷ Marketing strategies were centralized and the approval process was bureaucratic. These processes worked when the cola "was at the center of everything [the company] did," but the approach relegated consumer preferences to the sidelines.⁸⁸ Even when overwhelming information pointed to the merits of launching new local products [to cater to local tastes], Atlanta had the final say and often chose cola over new ventures. In trying to launch a carbonated tea in China recently, a local manager "had the formula, had the flavor, had done all the taste-testing, but Atlanta kept saying 'are you sure', delaying the launch and putting Coke several months behind its local competitors."⁸⁹

The worldwide approach that Coke used to launch new products was problematic, as was seen in Coke's foray into bottled water. A Coke executive conceded, "looking for a worldwide strategy for water slowed us down. You can't apply a global standard of measurement to consumers, because it reduce everything to the lowest common denominator."⁹⁰ As a result of the slowness in deciding on a strategy, Coke's bottled water brands Dasani and Bonaqua have not achieved considerable market share.

Organizational Response

Ivester had been "directly involved in everything from employee benefits to corporate aircraft," and so had insufficient time for more top-level strategic duties.⁹¹ In Atlanta, in late 1999, Ivester finally turned his attention from international acquisitions to internal affairs. Under pressure from the board of directors to streamline his management processes, Ivester announced a reorganization of the executives reporting to him. He reduced the number of direct reports from sixteen to six, and promoted three men, Jack Stahl, Douglas Daft and James Chestnut to positions of "broader responsibilities."⁹² Stahl would head all of Cokes' operations in the Americas; Daft would run the Africa, Middle East, and Asia groups; and Chestnut was to be chief of corporate services, communications, government relations, and product integrity. The new structure allowed Ivester "to concentrate more on vital matters such as long-term planning."⁹³

Despite Ivester's good intentions, some questioned whether the changes were sufficient. "Certainly elevating these people will make the company stronger, but is that enough?" asked one beverage industry executive.⁹⁴ The executive rearrangement did not do much to improve Coke's standing "at a time when [it] faced challenges on many fronts, including falling profit, sluggish sales, weakness in some overseas markets and scrutiny from antitrust regulators in Europe."⁹⁵ An additional criticism was that there was still not a clear No. 2. Ivester

said "that he didn't need a filter between himself and top executives and that he envisioned management layers "coming out rather than going in."⁹⁶ One observer said, "this company has had a lot of problems, and for its health and dynamism you need a No. 2. You need someone in any company who can trade punches with the No. 1."⁹⁷

Although there were three promotions, there was also one prominent demotion. Ivester demoted Carl Ware, one of Ebony magazine's "12 Most Powerful Blacks in Corporate America" and Coke's highest-ranking African-American executive. Ware, whom Ivester had appointed as head of its diversity initiative in the wake of a racial discrimination suit, had been reporting directly to Ivester. In the new executive structure, he would now be accountable to Daft, then head of Coke's Middle East and European division.⁹⁸ Ivester notified Ware of the reassignment by telephone while Ware was traveling in Europe. The demotion led to Ware's resignation and added to the public outcry regarding the suit. The Rev. Jesse Jackson criticized the company, pointing out the fact that in 111 years at Coke, Ware had been the only black to have senior responsibility.

Despite the attempt at streamlining management, Ivester apparently failed to make substantive changes. The board, unhappy with his performance, felt that Ivester did not appreciate how much needed to be done at the company. In December 1999, under pressure from the board, Ivester announced his early retirement, and left the company with a \$17.8 million package⁹⁹.

The Dawn of a New Era

The current CEO, Douglas Daft, is a very different manager than his predecessor. Amiable and thoughtful where Ivester was gruff and heavy-handed, his first move as CEO was to turn his attention inward and clean house. He created a new mantra at Coke: "think local, act local."¹⁰⁰ As Daft has observed, "no one drinks globally. Local people get thirsty and go to their retailer and buy a locally made Coke."¹⁰¹ To that end, there has been "a substantive reorganization--including decentralization of the operational and marketing functions to give local managers more authority."¹⁰² Regional managers will be moved out of headquarters "to place them closer to their local markets."¹⁰³

Although major decisions will still be made in Atlanta, the new structure grants a great deal of freedom to regional business units. According to Daft, "the strategy and campaign architecture for Coca-Cola will be the same around the world. But it's up to the marketing people in individual countries and communities to communicate that message."¹⁰⁴ "After an overall strategy is developed for the company's main brands, each local market will be free to execute it in ways that make sense."¹⁰⁵ No longer will Atlanta Coke be taking a "cautious approach to planning," as it had in the past.¹⁰⁶ So opposed to centralization is Daft that he has scuttled [plans to complete] a new glass and concrete building still under construction. It was meant to be a "second Atlanta" for Europe, housing senior executives and technical staff for the region."¹⁰⁷ Instead of running all of Europe from a "second Atlanta", regional managers will run their territories on-site. They will be responsible for local market analysis, new product development, and management of the local brand portfolio. "Each of the company's 26 operating divisions around the globe is free to take risks, come up with new ideas and implement them in a much streamlined approval process."¹⁰⁸ "The Turkish division, for example, is launching a pear-

flavored drink, while the German operation is trying a berry-flavored Fanta."¹⁰⁹ Evidence of the new spirit at Coke comes from Ahmet Bozer, head of the Eurasia division. He "says it took him only 13 days to win approval to launch two new brands in Kazakhstan, Apple and Pear Fresca. Three months used to be the norm."¹¹⁰ Daft plans to emulate his success in Japan during the 1980's around the world. There are over 200 brands in Japan, and it "is now the group's most profitable market; two-thirds of its sales are of such unfizzy things as canned tea and coffee."¹¹¹ "Local managers [will] be free to [make decisions] and [to take] the flack for any mistakes."¹¹²

In order to facilitate the decentralization, Daft eliminated 6,000 jobs worldwide, 2,000 of which were in Atlanta. With fewer people, the local businesses hope to achieve flexibility and agility in response to local preferences. For example, "Coca-Cola said it is dividing its European business into two divisions to devote greater management muscle to an area where the soft drink company has stumbled recently. West Europe, based in Madrid, will be run by Jose Cervera; Central Europe/ Eurasia, based in Vienna, will be run by Cern Kozlu. Each will have absolute accountability for the business results of the respective units. Each group will be further subdivided into 4 to 6 local divisions."¹¹³ As one observer noted, Daft is "quick to decide what needs to be done, but steps back to allow subordinates to make up their minds about how to do it."¹¹⁴ The hope is that Daft's decentralization will make a more responsive and "trend-setting" Coke, that will "move beyond just carbs."¹¹⁵

There is much that needs to be done at the company. As one executive stated, "Mr. Daft needs to revive Coke's brand, crack open the group's inward-looking culture and soften its image."¹¹⁶ To that end, he has disbanded the in-house ad agency Edge Creative, responsible for the "Always Coca-Cola" slogan. He will hire a Madison Avenue firm so that a groundbreaking campaign can revitalize the brand.

In addition, Daft rehired Carl Ware to head Coke's Africa unit and is seeking a "reasonable settlement" of Coke's racial discrimination suit. Daft believes that "you've got to give attention to people. You've got to be able to see the people within the organization and outside the organization."¹¹⁷

Daft is striving to ensure that Coke better serve customer tastes and forges relationships with other companies to gain a stronger understanding of what customers want. Coca-Cola "has established alliances with companies that have specific expertise [in satisfying consumer tastes] as it tries to learn more about consumers and their varied interests."¹¹⁸ "In the past, such alliances may have been geared to short-term joint promotions or advertising deals. Now, however, Coke is hoping to tap these companies for a wealth of consumer information over the long haul."¹¹⁹ By working with companies such as Creative Artists Agency, Coke can better "identify entertainment trends and popular personalities to align with. It is also providing funding to iFuse.com, a youth culture Internet site, to gain insight into all aspects of teen life."¹²⁰ These alliances give Coke access to important data about consumer tastes that it can use to its advantage in several markets. Through an alliance with a company in Spain, Coke "recently found out that [Spanish] kids like the tanginess of juice and the texture of milk. So it introduced Sonfil, a juice-milk combination that...is doing well so far."¹²¹ Sonfil is some of the first evidence of the benefits to consumers of the "think local, act local" principle.

In Europe, where Coke encountered great difficulty in the late 1990's, Daft has begun repairing Coke's relationships with European regulatory bodies. He hopes that Coke will be more responsive to European regulators and cultural sensitivities than it had been in the past. "By building better relations with regulators, Coke will make a better case for itself and also get a better idea of where the goal posts are. "...To operate effectively in Europe you can't sit and argue. You've got to come in the door and learn the house rules."¹²² In order to facilitate a better understanding of the European market, while in Rome, Daft "dined with Coke's local managers and then took in a guided tour of the Vatican. He paused for a long time at a hallway of paintings depicting patchworks of autonomous villages and cities that in the 16th century made up what is now Italy. Coke should look at its markets this way, he told executives on the tour with him, seeing a collection of tiny communities, each with its own tastes and cultures."¹²³

Coke believes that the new structure and leadership will get the derailed giant back on track. Inspired by the new millennium, Daft has proclaimed year 2000 "the year of recovery for the world, and obviously our business will be a part of that."¹²⁴ Time will surely tell.

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The Coca-Cola Company: Follow-Up

Frances J. Milliken
Stern School of Business
New York University
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In 2000 and 2001, Coke's sales growth rate fell short of its projections. The company achieved a growth rate of 4% while aiming for a growth rate of 6%.¹ As of July 2002, however, the Coca-Cola Company reported that second-quarter earnings for 2002 rose by 15% despite weak results in the European and Latin American markets.²

The environment in the beverage industry has continued to be characterized by flat demand in the carbonated drink sector. Other beverage sectors, meanwhile, have been experiencing significant growth in demand. For example, bottled water sales in the United States grew 30% last year, compared with 0.6% growth in soft drink sales.³ Dasani, Coke's brand of bottled water, is a Coke product that has experienced huge growth in sales in the last couple of years (Dasani's sales increased 95% in the year 2001).⁴ Dasani has become 2nd in market share in the United States among bottled waters.⁵

In talking about the Coca-Cola Company's strategy, the company's Vice President of Portfolio Development and Innovation, Jay Gould, argues that the beverage market can be divided into four categories of beverages:

- Refreshment drinks – carbonated beverages (i.e., Coke, Diet Coke, Sprite)
- Replenishment drinks – waters and sports beverages (i.e., Dasani, PowerAde)
- Rejuvenation drinks – coffees and teas (i.e. Georgia Coffee, Marocha)
- Health and Nutrition drinks – juices and milk (i.e., Minute Maid, “shelf-stable” milk products)⁶

¹ “Coke conducts a search for talent to re-establish its marketing might.” Betsy McKay. *Wall Street Journal*, March 6, 2002.

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According to Gould, Coke's "core business isn't c.s.d.s (carbonated soft drinks) anymore, our core business from now on is beverages."⁷ According to its CEO, Douglas Daft, Coke aims to be a "total beverage company" and aims to dominate in each of these beverage sectors not just one.

Coke, however, lags behind Pepsi in positioning itself as a total beverage company in most beverage categories with the exception of the carbonated sector. In the juice sector, Pepsi, for example, produces Tropicana while Coke produces Minute Maid. In the sports drink sector, Pepsi produces Gatorade while Coke produces PowerAde. Also, Pepsi produces Aquafina (1st in the bottled water sector in market share in the U.S.) while Coke produces Dasani (2nd in the bottled water sector in market share in the U.S.).⁸

In order to compete effectively, as a total beverage company, Coke has to create and/or buy new products to fit particular markets and particular tastes. While beverage industry analysts agree that the big growth opportunities in the near future are in the non-carbonated sector, this sector is seen as "a maze of relatively tiny, ever-shifting markets."⁹ "...the ground has shifted underneath Coke. Here's this legend of capitalism, this worldbeater, this icon of all-powerful American enterprise, and now its forced to keep track of what girls in Peru drink for breakfast; which tiny juice line in Poland it needs to buy out; whether women in Indonesia want milk in their coffee, or sugar, or both."¹⁰ Competing effectively will require more R & D to scan the environment and identify opportunities. It will also require the ability to make decisions quickly and to tailor products to local markets. For example, Coke has 200 brands of products on the market in Japan in an effort to gain sales in a country where sales seem to be dictated by trends.¹¹ In Japan, a product trend may last only six months, meaning that, to be successful, companies must identify trends and bring products to market within an even shorter time frame.

In addition to the need to respond to the increased complexity, fragmentation, and volatility of the markets, a danger the Coca-Cola Company faces, of course, is that there may be an overproliferation of faddish products and that Coca-Cola may lose some of the luster

⁷ "I'd like to buy the world a shelf-stable children's lactic drink." Seth Stevenson. *New York Times*, March 10, 2002.

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associated with its flagship product “The challenge will be to create locally tailored campaigns without diluting the Coca-Cola brand’s global image.”¹²

In attempting to manage in this new world, Coke appears to be backing off its “think local, act local” strategy a bit.¹³ The top management of Coca-Cola appears to be looking for an organizational structure that will allow it to both maintain the power of its brand image as a marketing asset and allow it to achieve its strategy of dominating globally in each of the beverage sectors in which it seeks to compete. According to Coke, it will operate a “global network of local executives who take cues on brand strategy from Atlanta but still interpret it as they see fit.”¹⁴

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