The Coca-Cola Company: A Global Presence

As one of the world's best known brands, Coca Cola has endured some important changes in the latter half of the 1990s. The CEO for the last 17 years, Roberto Goizueta, passed away on October 18, 1997 of lung cancer. During Mr. Goizueta's tenure at Coca-Cola, the market value dramatically increased from $4 billion in 1981 to nearly $150 billion today (Click here for 1998 results). This makes him one of the greatest value creators in history. Former Chief Financial Officer, Douglas Ivester, was appointed as his replacement. The question on many investors' minds is can Mr. Ivester continue Coke's incredible pace in the global soft drink market?

Coca-Cola's Global Dominance

The larger a company is, the harder it is to continue to grow at a steady pace. This was the major challenge facing the Coca-Cola Company in the mid-1990's. The U.S. market had already been well developed, with an average of 296 8-ounce servings of Coke products consumed by every man, woman, and child (1). But the Company had not introduced a major new product in nearly 10 years. Demand for diet drinks-the fastest growing soft drinks of the 1980's-had leveled off, and demand for cola-flavored drinks had begun to decrease (2). According to a former Coke executive: "The problem was that Diet Coke was driving the engine and everybody was living off that (3)."

Meanwhile, the competition had not been sleeping. Pepsi was test-marketing a colorless cola, Crystal Pepsi, in response to consumers' interest in clear flavored waters and seltzers. Pepsi had also come out with a new advertising campaign and slogan. Neither company appeared to be particularly concerned about competition from other soft drink manufacturers. However, consumers were drinking more and more new types of beverages, and traditional juice companies such as Very Fine and Ocean Spray had begun to package their products in single-serving cans, in addition to the traditional bottles or juice boxes. Snapple, once owned by Quaker Oats and now by Triarc Beverage Group, developed a new process for bottling tea that required no preservatives and expanded its product line from juices into seltzers and other natural sodas (4).

Roberto Goizueta, former Chief Executive Officer of Coca-Cola Company, recognized the problem. He challenged his new Chief Operating Officer, Company President Douglas Ivester, to rejuvenate the Coke brand. Under Ivester's direction, Coke's advertising agency was given the freedom to develop different messages and marketing campaigns aimed at different groups of consumers. Previously, Coke had been advertised with a single theme and image, intended to appeal to everyone. Ivester also rehired Sergio Zyman as head of marketing. This surprised many people, since Zyman had been largely responsible for "New Coke," a reformulation of Coca-Cola with a new taste designed to compete more closely with Pepsi but which had proved highly unpopular among Coke drinkers.
Zyman led the introduction of new packaging - the plastic contour bottle, based on Coke's traditional glass shape (5). He also emphasized the importance of marketing the product in ways other than just traditional advertising. One new idea was "fast-lane merchandisers" - coolers of coke at the end of check-out counters designed to attract people standing in line (6). The Company also signed an agreement with Rutgers University, in New Jersey, paying the school $10 million for 10-year rights to be the exclusive supplier of soft-drinks and juices, including vending machines, cafeterias, convenience stores, and student centers (7). A similar Pepsi contract with Pennsylvania State University was expected to earn Pepsi $14 million over 10 years. In addition to their sales, both companies valued these contracts because of their ability to reach and influence younger cola drinkers.

The Coca-Cola Company also began actively to develop new products (8). It introduced PowerAde, challenging Gatorade in the $1.2 billion sports drink market, and promoted it with free samples at the World Cup soccer matches throughout the United States. OK Soda, a lightly carbonated drink targeted at "Generation X," was targeted at consumers in their late teens and early twenties. The company also developed Fruitopia drinks, mixtures of fruit flavors such as cranberry lemonade, for the alternative beverage market.

CEO Goizueta and President Ivester were also concerned with expanding Coke's international base. In 1993, more than 6.3 billion unit cases of Coke and Coke Classic were sold worldwide, in more than 195 countries. Diet Coke, also known as Coke Light, was the number one low-calorie soda in the world, available in 117 countries. However 80 percent of the 1.3 billion unit cases was sold in only four markets, all English speaking. Fanta was the only global brand in orange sodas, available in 170 countries, and Sprite, available in 168 countries, was the fifth largest selling brand in the world. Coke was also the largest marketer of juice and juice-drink products in both the United States (with brands including Minute Maid and Hi-C) and the world. However, Goizueta felt that there was still room to grow.

To manage the scope of its business, the Coca-Cola Company is divided into two soft drink business sectors, the North America Business Sector and the International Business Sector. The North America Business Sector is made up of Coca-Cola USA, which operates in the United States, Coca-Cola Ltd., which is responsible for soft drink operations in Canada, and Houston-based Coca-Cola Foods, which produces and markets juices and juice drinks.

The International Business Sector is divided into four operating groups, each of which is responsible for a geographic region of the globe. The Greater Europe Group manages the countries of the European Union, Central and Eastern Europe, Scandinavia and the former Soviet Union. The Latin America Group oversees Mexico and Central and South America; the Middle and Far East Group manages the countries of the Pacific and the Middle East. The Africa Group is responsible for sub-Saharan Africa.
Traditionally, the Coca-Cola Company's main technique for entering and building foreign markets had been through independent bottlers, to whom it sold its "secret formula" in the form of syrup or concentrate. However, this meant relying on the local bottlers to distribute and market Coke products. Soon after he became CEO, Goizueta was asked by John Hunter, his regional manager in the Philippines, to consider becoming an active partner in the Philippine bottler, which had been neglecting Coke and concentrating on the beer it bottled. Coke invested $13 million, becoming the controlling partner in a joint venture with the bottler. Goizueta and his managers made this their model for international expansion. When entering a new market, the Company would seek to establish distribution of Coke products in key population centers and develop relationships with the important retail channels. It would look for "well capitalized business partners with local know-how and visibility." The workforce would come from the local area and would be extensively trained and eligible for promotion.

These strong, experienced partner companies helped Coke move quickly into Eastern Europe in the 1990's. On one tour, Goizueta attended the opening of plants in Prague (with anchor bottler Coca-Cola Amatil of Australia), Warsaw (with anchor bottler Ringnes of Norway), and Bucharest. When the United States ended its ban with Vietnam in 1994, Coca-Cola had already signed a joint venture agreement for at least two plants and was prepared to start operations within weeks. Coke re-entered the market in India in late 1993, having left the country many years earlier when the Indian government pushed for local ownership. This time, Coke formed a strategic alliance with Parle Exports, a local company with its own soft drink brands and a network of 60 bottling plants. The company saw India's 896 million people and fast-growing middle class as a significant growth opportunity. Coke also began a joint venture with the Swiss Company, Nestle, to produce and market canned coffee and tea drinks.

**Coke's Dominance**

The Coca-Cola Company is the global soft drink industry leader. Every day in 1994, consumers enjoyed an average of more than 773 million servings of Coca-Cola (known as Coca-Cola classic in the U.S. and Canada), diet Coke (known as Coca-Cola light in some countries), Sprite, Fanta and other products of The Coca-Cola Company. Syrups, concentrates and beverage bases for Coca-Cola, the Company's flagship brand, and other Company soft drinks are manufactured and sold by The Coca-Cola Company and its subsidiaries in more than 195 countries around the world (9; 10).

One of Ivester's first threats was the currency crisis across Southeast Asia in late 1997. Rather than viewing the situation as a setback, the new chairman saw it as an opportunity to bolster its business in these areas. The strength of the dollar against other major currencies is a primary concern, as Coke receives 80% of its profit from overseas - 15% to 17% from Japan alone. Coca Cola learned from the peso crisis in Mexico in 1994 and used that situation to build its business there - with a market share much larger than it was in 1994. Ivester's decision to restructure Coca Cola's global bottling system by lashing together hundreds of small bottlers into a handful of well-
capitalized "anchor" bottlers with strong local ties and distribution systems is paying off handsomely (11).

In a continued sign of its global emphasis, in December, 1997, Coca Cola signed an agreement to purchase the Orangina brands and four bottling and concentrate plants in France from Pernod Ricard SA for a value of $700 million. However, both Pepsi and the French government have worked to overturn the agreement. With its addition of Surge and Citra, Coke is acknowledging the movement of the US market away from colas (72% in 1990 to 64% in 1996), with the fastest growing brands including Sprite, Mountain Dew and Dr. Pepper (12).

With global opportunity also goes global risk. In the third quarter of 1998, Coke suffered a drop in its unit shipments from 11% to 3% growth compared to the previous year's quarter as a result of the Asian currency crisis and global recessionary effects. System-wide revenue slipped 4%, although Coke still showed a profit of $888 million (13). However, unit shipment growth remains slow in 1999, causing analysts to question whether Ivester can continue the fantastic growth of the Coca Cola franchise.

In addition, Coke experienced some embarrassing problems with its brands in Europe in June, 1999, including a contamination scare that caused over 200 people to become sick in Belgium. Coke was forced to recall 14 million cases of its drinks at a loss of over $60 million (14). Coke was soundly criticized for its slow reaction to the crisis.

As a result of this and other problems, Douglas Ivester announced on December 6, 1999 that he would be stepping down as CEO of Coca-Cola in April of 2000. "After reflection and thought, I have concluded that it is time for me to move on to the next stage of my life." (15) Coke's board is expected to name Douglas Daft as Ivester's replacement. Daft took over as CEO of the company's Africa, Middle East and Far East division in October, 1999. A 30-year Coke veteran, Mr. Daft was named Coke's chief operating officer and president of the company.

Reference: