

## MORE THAN JUST A SOFT DRINK

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### CASE DESCRIPTION

*The primary subject matter of this case concerns the Coca Cola Company and its decisions to change the formula in the 1980's. It also looks at the culture of the firm that led up to the change and its relationship with customers. It is appropriate for junior/senior level courses and could be covered in 60 to 90 minutes. Outside preparation by students would be 1-2 hours.*

### CASE SYNOPSIS

*Coca Cola is one of the most recognized logos by both adults and children in the United States and abroad. For Coca Cola lovers everywhere a fateful day in 1985 will forever be remembered as a turning point for the product to which they had become so fiercely loyal. Coca-Cola in that year introduced New Coke, which was a bit like putting a miniskirt on the refurbished Stature of Liberty, or painting the White House red, or scribbling graffiti on a Norman Rockwell (Demott, 1985).*

### PROCEEDINGS

Coca Cola was born in Atlanta May 8, 1886 when pharmacist, Dr. John Stith Pemberton produced the syrup for Coca Cola. He carried his formula to Jacob's pharmacy. There it was sampled and pronounced "excellent". It was placed on sale for five cents a glass as a soda fountain drink. The syrup was teamed with carbonated water to produce a drink that was immediately "Delicious and Refreshing" an idea that continues to echo today wherever Coca Cola is shared.

Dr. Pemberton's partner and bookkeeper suggested the name and penned the famous trademark "Coca Cola" in his unique script. During the first year sales averaged a moderate nine drinks per day. Never realizing the potential and future impact that his product would have, Dr. Pemberton, gradually sold portions of his business to various partners and just prior to his death in 1888 he sold his remaining interest to Asa G. Chandler. Mr. Chandler bought additional rights and soon acquired complete control of Coca Cola. (Heritage/Chronicle\_birth 1)

The time following the acquisition is referred to as the Chandler Era in the Coca Cola history. By 1892 Chandler had boosted sales of Coca Cola syrup nearly ten times. His complete focus was on the soft drink and in order to maintain the level required he sold his pharmaceutical business. The business continued to grow and prosper and in 1894 other syrup manufacturing plants opened outside of Atlanta including plants in Dallas, Texas, Chicago, Illinois and Los Angeles, California. Three years after Coca Cola's incorporation Chandler had the pleasure of announcing in his annual report to the shareholders that Coca-Cola is now drunk in every state and territory in the United States. In 1894, in Vicksburg, Mississippi bottling machinery was installed and cases of Coca-Cola were sold to farms and lumber camps along the Mississippi River; this was the first time that Coca-Cola was bottled. The plants grew to over 1,000 over the next 20 years. Coca-Cola searched for the container that would best represent the genuine Coca-Cola drink. The bottle shape that we all have come to recognize Coca-Cola by was granted a trademark by the U. S. Patents Office in 1977. (Heritage/Chronicle\_the\_chandler\_era 1)

Chandler sold the Coca-Cola Company to an Atlanta banker named Ernest Woodruff for \$25 million in 1919. Under Woodruff's leadership the Coca-Cola Company soared to commercial success. (Heritage/chronicle\_man\_named\_woodruff 1)

Coke sales slowly began slipping over the next 15 years, Coca-Cola's preference was dipping and so was consumer awareness. The summer of 1985 would soon change the course that Coke was currently on. On April 23, 1985 Coke introduced New Coke, and took the biggest risk in consumer goods history (Heritage/cokelore\_newcoke\_include 1). This change came after the same formula had been sold for 99 years. The change was preceded by taste tests of more than 190,000 consumers in 25 different cities in both the U.S and Canada (Demott 2). Unfortunately these tests failed to take into account something that would make the success of the new formula fizzle under the critical eyes of the consumers. The tests didn't expect the consumers to so fiercely protest even Coca-Cola changing the unique taste that had been the landmark of the company. The public's outcry was heard all across America from the formation of protest groups such as the "Society for the Preservation of the Real Thing" and Old Cola Drinkers America (Heritage/cokelore\_newcoke 2). Chairman and Chief Executive Officer Roberto Goizueta actually received a letter addressed to "Chief Dodo, The Coca-Cola Company"; he said the thing that most upset him was that the letter was delivered to him (Heritage/cokelore\_newcoke). All at once all eyes were on Coca-Cola, realizing how important Coke was to them.

The experience taught everyone a lesson, what Coke didn't realize was who actually owned Coke, the consumers. By June The Coca-Cola Company consumer hotline was receiving 1,500 calls per day compared with 400 calls prior to the introduction of New Coke. Everyone seemed to hold any Coke employee personally responsible for the change. (Heritage/cokelore\_newcoke) On July 11, 1985, a mere 79 days after the introduction of New Coke, Coca-Cola brought back the original. Two top executives at Coke pulled together to make the decision to bring back old Coke, giving it the name Coca-Cola Classic (Greenwald 3). Coca-Cola Classic was sold alongside Coca-Cola and had two different target markets and therefore two distinct advertising campaigns. The youthful market of New Coke encourages consumers to "Catch the Wave" while the more emotional more nostalgic market of Coke Classic is encouraged by the slogan "Red White and You" (Heritage/cokelore\_newcoke 2).

Coke now recognizes that the test marketing was flawed. It didn't properly inform the consumer the consequences of their choice; choosing New Coke meant giving up the old favorite. Coke emerged stronger than ever and was fighting its fiercest competitor from both sides. It backed into the one of the most powerful strategic positions in the consumer marketplace; after all they can satisfy the die-hard Coke customers and the consumers who like the sweeter taste of New Coke (Greenwald, 6).

The future looked brighter than ever for Coke as it continued to take its products global and expanded in several directions. In 1990 Coca-Cola relaunched new Coke with a new name Coke II, and with its new look it sent another crushing blow to its rival Pepsi. Coke had become as much a part of America as apple pie and fire works on the 4<sup>th</sup> of July. It will remain unfaulted by this decision and will continue to hold a strong place in the U.S soft drink industry as well as worldwide markets.

The decision to introduce the new formula was a non-programmable decision; it was a unique problem with no clear-cut criteria or adequate information other than the flawed survey data and the stagnant numbers in the industry. Coke was forced to take action and the executives felt the decision must be made rather quickly to maintain their stronghold; this led to a more behavioral type decision, it looked at how the consumer was responding to taste tests. (Daft, 444)

Coca-Cola's culture most resembles a clan culture. Everyone is working together to achieve the goals set by the executives (Daft, 358). Coke's strategy for interacting and maintaining an edge in the competitive market was driven by the consumers' lack of enthusiasm for soft drinks in general. Coke had to reenergize the population's interest in soft drink products (Daft, 50 and 134).

Coke encouraged trying new and innovative ideas by sending the message that it is ok to take intelligent risks even if they don't work out as intended" (heritage/cokelore\_newcoke 1). Goizueta urged employees to take intelligent risks in their jobs, saying it was critical to the company's success (heritage/cokelore\_newcoke 2). The culture allows employees to take an active part in the processes that affect their daily work (Daft, 358). The fact that they are involved in the decision process and the implementation of the change helps to foster the change and improves the overall success rate of the change. Mr. Goizueta states that "Coke set out to change the dynamics of sugar colas in the United States, and we did exactly that –albeit not in the way we planned." (Heritage/cokelore\_newcoke). He further states that the most significant result of the "New Coke" was that it sent an incredibly powerful signal... a signal that we really were ready to do whatever was necessary to build value for the owners of our business (Heritage/cokelore\_newcoke). This lets the employee know that they are important and they matter. This will foster better employee confidence in themselves and in the organization they work for.

The decision to introduce New Coke utilized different dimensions of the decision models discussed in textbooks. It had an element of a trial and error model in that they did go back and renounce their decision, brought back Coke Classic and pulled New Coke from the shelves. This trial and error however did prove to be beneficial because it gave them more insight into their external environment and allowed them to see what the consumer expected. They gathered information from their consumers before making the decision and realized that more information should have been disclosed and gathered in order to make the most informed decision.

However; in keeping the consumer happy, the stock prices and profits increased and ultimately the stockholders were pleased. It also allowed for participative decision making because the decision to produce and sell Coke Classic was not made by one individual, it was a top down decision in that the individuals involved were two executives (Daft, 444). The requirements for a successful change appeared to be stacked in Coke's favor. They had the need for a change because the market was becoming lethargic, and the results from the taste test indicated that the population in general would like the smoother, sweeter taste of New Coke. Another element required for a successful change is management support. Coke not only had management support they also had the support of the employees. They made the decision from the top but including involvement at all levels. They were prepared for resistance internally but didn't expect it to occur externally and with such force. They had a change agent who not only supported and believed in the decision but had the authority to make decisions during the process (Daft, 398).

Organizations looking to Coke as an example could take several lessons to heart. First be sure that the external environment is carefully monitored and that the entire story is passed on to the consumer. Conflicts with change are generally expected from the internal environment however, in this instance the greater conflict came from the consumers, not realizing the impact they had by choosing the taste of New Coke. They rejected the change and demanded that the original product be brought back. Organizations need to realize that even with all the technology that is available to organizations today the decisions are still made by humans and therefore are highly susceptible to human error. Other organizations could learn to expect the unexpected and when that occurs to bow out gracefully and recover as much as possible, all the while holding on to as much dignity as possible.

The events of the decision to market New Coke in 1985, which some hail as the marketing blunder of the century, with consumers hoarding the "old" Coke, and calls of protest by the thousands changed forever The Coca-Cola Company's thinking" (Heritage/cokelore\_newcoke 1). The Coca-Cola Company was able to take what could have been a major failure and turned it into something positive for the organization. They proved to their employees and the public that they are a learning organization, which promotes communication and collaboration so everyone is engaged in identifying and solving problems, enabling the organization to experiment, improve and increase its capability (Daft, 28). It was able to move forward with new products and come out of

the situation a better company because the public saw them in a different light. It also allowed them to teach a valuable lesson to their employees, one that will hopefully help to shape the future at Coca-Cola. It taught the employees that it is ok to make a decision that doesn't work out the way it was anticipated.

### QUESTIONS

In class discussion the following questions could be addressed:

1. How could a firm make a major change like this without adequate information?
2. Should a change of this magnitude only be made by a CEO?
3. What methods of information gathering should a firm use to stay abreast of its customers wants and needs?
4. What can a firm learn from these kinds of mistakes?