

Case 10-1

Coca-Cola India

On August 20, 2003, Sanjiv Gupta, president and CEO of Coca-Cola India, sat in his office contemplating the events of the last two weeks and debating his next move. Sales had dropped by 30–40 percent¹ in only two weeks on the heels of a 75 percent five-year growth trajectory and 25–30 percent² year-to-date growth. Many leading clubs, retailers, restaurants, and college campuses across India had stopped selling Coca-Cola.³ Only six weeks into his new role as CEO, Gupta was embroiled in a crisis that threatened the momentum gained from a highly successful two-year marketing campaign that had given Coca-Cola market leadership over Pepsi.

On August 5, the Center for Science and Environment (CSE), an activist group in India focused on environmental sustainability issues (specifically the effects of industrialization and economic growth), issued a press release stating: “12 major cold drink brands sold in and around Delhi contain a deadly cocktail of pesticide residues” (see Exhibit 10.1). According to tests conducted by the Pollution Monitoring Laboratory (PML) of the CSE from April to August, three samples of 12 PepsiCo and Coca-Cola brands from across the city were found to contain pesticide residues surpassing global standards by 30–36 times, including

lindane, DDT, malathion, and chlorpyrifos (see Exhibit 10.2). These four pesticides were known to cause cancer, damage to the nervous and reproductive systems, birth defects, and severe disruption of the immune system.⁴

In reaction to this report, the Indian government banned Coke and Pepsi products in Parliament, and state governments launched independent investigations, sending soft drink samples to labs for testing. The Coca-Cola Bottling Company (Coke) stock dipped by five dollars on the New York Stock Exchange from \$55 to \$50 in the six sessions following the August 5 disclosure, as did shares of Coca-Cola Enterprises (CCA).⁵

Pepsi and Coca-Cola called the CSE allegations “baseless” and questioned the method of testing, but the CSE claimed it had followed standard procedures documented by the U.S. Environmental Protection Agency, including gas chromatography and mass spectrometry. Pepsi’s own tests conducted at an independent laboratory showed no detectable pesticides and led Pepsi to file a petition with the high court questioning the credibility of the CSE’s claims,⁶ while Coke’s Gupta commented: “The allegation is serious and it has the potential to tarnish the image of our brands in the country. If this continues, we will consider legal recourse.”⁷

Despite Coke and Pepsi’s early responses denying the validity of the CSE’s claims and threats of legal action, a survey conducted in Delhi a few days after the CSE announcement found that a

¹ “Toxic Effect: Coke Sales Fall by a Sharp 30–40%,” *Economic Times*, August 13, 2003, p. 1.

² “Controversy-Ridden Year for Soft Drinks,” *Business Line* (New Delhi), December 30, 2003, p. 6.

³ “Toxic Effect.”

Source: This case was prepared in 2005 by Jennifer Kaye, T’05, under the supervision of Professor Paul A. Argenti. The author wishes to thank Nymph Kaul for her research assistance and Rai University for its financial support in the development of this case, which was written with the cooperation of Coca-Cola India. © 2008 Trustees of Dartmouth College. All rights reserved. For permission to reprint, contact the Tuck School of Business at 603-646-3176.

⁴ Center for Science and Environment, press release, “Hard Truths about Soft Drinks.” August 5, 2003.

⁵ “No Standards for World-Wide Pesticide Residues in Soft-Drinks,” *Business Line* (New Delhi), October 3, 2003, p. 9.

⁶ “Coke & Pepsi in India: Pesticides in Carbonated Beverages,” <http://www.vedpuriswar.org/articles/Indiancases>.

⁷ “Tests Show Pesticides in Soft Drinks, Claims CSE,” *Economic Times*, August 6, 2003, p. 1.

EXHIBIT 10.1 Center for Science and Environment Press Release: Hard Truths about Soft Drinks

New Delhi, August 5, 2003: After bottled water, it's aerated water that has plugged the purity test. In another exposé, *Down To Earth* has found that 12 major cold drink brands sold in and around Delhi contain a deadly cocktail of pesticide residues. The results are based on tests conducted by the Pollution Monitoring Laboratory (PML) of the Centre for Science and Environment (CSE). In February this year, CSE had blasted the bottled water industry's claims of being 'pure' when its laboratory had found pesticide residues in bottled water sold in Delhi and Mumbai.

This time, it analysed the contents of 12 cold drink brands sold in and around the capital. They were tested for organochlorine and organophosphorus pesticides and synthetic pyrethroids—all commonly used in India as insecticides.

The test results were as shocking as those of bottled water.

All samples contained residues of four extremely toxic pesticides and insecticides: lindane, DDT, malathion and chlorpyrifos. In all samples, levels of pesticide residues far exceeded the maximum residue limit for pesticides in water used as 'food', set down by the European Economic Commission (EEC). Each sample had enough poison to cause—in the long term—cancer, damage to the nervous and reproductive systems, birth defects and severe disruption of the immune system.

WHAT WE FOUND

- Market leaders Coca-Cola and Pepsi had almost similar concentrations of pesticide residues. Total pesticides in all PepsiCo brands on an average were 0.0180 mg/l (milligramme per litre), 36 times higher than the EEC limit for total pesticides (0.0005 mg/l). Total pesticides in all Coca-Cola brands on an average were 0.0150 mg/l, 30 times higher than the EEC limit.
- While contaminants in the 'Dil mange more' Pepsi were 37 times higher than the EEC limit, they exceeded the norms by 45-times in the 'Thanda matlab Coca-Cola' product.
- Mirinda Lemon topped the chart among all the tested brand samples, with a total pesticide concentration of 0.0352 mg/l.

The cold drinks sector in India is a much bigger money-spinner than the bottled water segment. In 2001, Indians consumed over 6,500 million bottles of cold drinks. Its growing popularity means that children and teenagers, who plug these bottles, are drinking a toxic potion.

PML also tested two soft drink brands sold in the US, to see if they contained pesticides. They didn't.

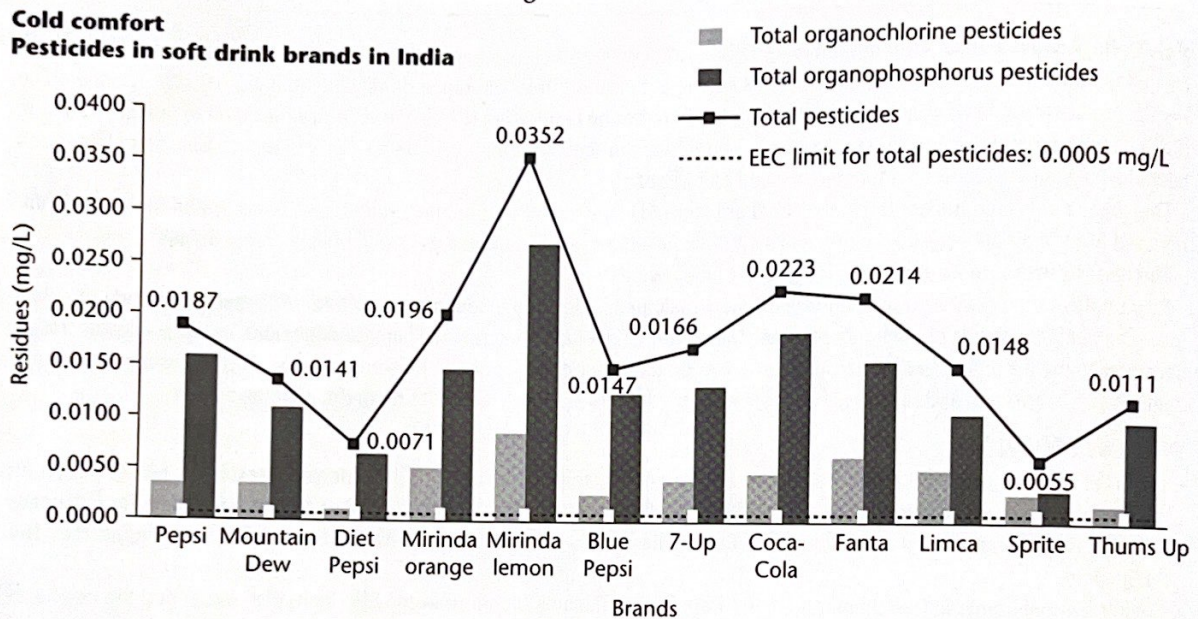
The question, therefore, is: how can apparently quality-conscious multinationals market products unfit for human consumption?

CSE found that the regulations for the powerful and massive soft drinks industry are much weaker, indeed non-existent, as compared to those for the bottled water industry. The norms that exist to regulate the quality of cold drinks are a maze of meaningless definitions. This "food" sector is virtually unregulated.

The Prevention of Food Adulteration (PFA) Act of 1954, or the Fruit Products Order (FPO) of 1955—both mandatory acts aimed at regulating the quality of contents in beverages such as cold drinks—do not even provide any scope for regulating pesticides in soft drinks. The FPO, under which the industry gets its license to operate, has standards for lead and arsenic that are 50 times higher than those allowed for the bottled water industry.

What's more, the sector is also exempted from the provisions of industrial licensing under the Industries (Development and Regulation) Act, 1951. It gets a one-time license to operate from the ministry of food processing industries; this license includes a no-objection certificate from the local government as well as the state pollution control board, and a water analysis report. There are no environmental impact assessments, or citing regulations. The industry's use of water, therefore, is not regulated.

Source: CSE press release, "Hard Truths about Soft Drinks." August 5, 2003.

EXHIBIT 10.2 Pesticide Content in 12 Leading Soft Drink Brands

Source: CSE press release, "Hard Truths about Soft Drinks." August 5, 2003.

majority of consumers believed the findings were correct and agreed with Parliament's move to ban the sale of soft drinks.⁸ The \$1 billion Indian soft drink market⁹ was at stake, and Gupta had to act.

HISTORY OF COKE

THE EARLY DAYS

Coca-Cola was created in 1886 by John Pemberton, a pharmacist in Atlanta, Georgia, who sold the syrup mixed with fountain water as a potion for mental and physical disorders. The formula changed hands three more times before Asa D. Candler added carbonation, and by 2003, Coca-Cola was the world's largest manufacturer, marketer, and distributor of nonalcoholic beverage concentrates and syrups, with more than 400 widely recognized beverage brands in its portfolio.

With the bubbles making the difference, Coca-Cola was registered as a trademark in

1887 and, by 1895, was being sold in every state and territory in the United States. In 1899, it franchised its bottling operations in the United States, growing quickly to reach 370 franchisees by 1910.¹⁰ Headquartered in Atlanta with divisions and local operations in over 200 countries worldwide, Coca-Cola generated more than 70 percent of its income outside the United States by 2003 (see Exhibit 10.3).

INTERNATIONAL EXPANSION

Coke's first international bottling plants opened in 1906 in Canada, Cuba, and Panama.¹¹ By the end of the 1920s, Coca-Cola was bottled in 27 countries throughout the world and available in 51 more. In spite of this reach, volume was low, quality inconsistent, and effective advertising a challenge with language, culture,

⁸ "Coke & Pepsi in India."

⁹ <http://www.indiastat.com>.

¹⁰ Nymph Kaul, "Coca-Cola India," Rai University, 2004; Coca-Cola Company website, <http://www2.coca-cola.com/heritage/>; Mark Pendergrast, *For God, Country and Coca-Cola* (New York: Charles Scribner's Sons, 1993).

¹¹ <http://www2.coca-cola.com/ourcompany/aroundworld.html>.

EXHIBIT 10.3 The Coca-Cola Company Income Statement

(in million \$ except per share data)	2002	2001	2000
Net operating revenues	19,564	17,545	17,354
Cost of goods sold	7,105	6,044	6,204
Gross profit	12,459	11,501	11,150
Selling, general, and administrative expenses	7,001	6,149	6,016
Other operating changes	0	0	1,443
Operating income	5,458	5,352	3,691
Interest income	209	325	345
Interest expense	199	289	447
Equity income (loss)	384	152	(289)
Other income (loss)—net	(353)	39	99
Gains on issuances of stock by equity investee	0	91	0
Income before income taxes and cumulative effect of accounting change	5,499	5,670	3,399
Income taxes	1,523	1,691	1,222
Net Income before cumulative effect of accounting change	3,976	3,979	2,177
Cumulative effect of accounting change for SFAS No. 142 net of income taxes:			
Company operations	(367)	0	0
Equity investments	(559)	0	0
Cumulative effect of accounting change for SFAS No. 133 net of income taxes	0	(10)	0
Net income	3,050	3,969	2,177
Basic net income per share before accounting change	1.60	1.60	0.88
Cumulative effect of accounting change	(0.37)	0	0
Diluted net income per share before accounting change	1.23	1.60	0.88
Cumulative effect of accounting change	(0.37)	0	0
Average shares outstanding	2,478	2,487	2,477
Effect of dilutive securities	5	0	10
Average shares outstanding assuming dilution	2,483	2,487	2,487

and government regulation all serving as barriers. Former CEO Robert Woodruff's insistence that Coca-Cola wouldn't "suffer the stigma of being an intrusive American product," and instead would use local bottles, caps, machinery, trucks, and personnel, contributed to Coke's challenges, as did the lack of standard processes and training, which degraded quality.¹²

¹² Pendergrast, *For God, Country and Coca-Cola*, p. 172.

Coca-Cola continued working for over 80 years on Woodruff's goal: to make Coke available wherever and whenever consumers wanted it, "in arm's reach of desire."¹³ The Second World War proved to be the stimulus Coca-Cola needed to build effective capabilities around the world and achieve dominant global market share. Woodruff's patriotic commitment "that every man in uniform gets

¹³ *Ibid.*

EXHIBIT 10.4 Interbrand's Global Brand Scoreboard 2003

Rank	Company	2003 Brand Value (\$Billion)	2002 Brand Value (\$Billion)	Percent Change	Country of Ownership
1	Coca-Cola	70.45	69.64	+1%	U.S.
2	Microsoft	65.17	54.09	+2%	U.S.
3	IBM	51.77	51.19	+1%	U.S.
4	GE	42.34	41.31	+2%	U.S.
5	Intel	31.11	30.86	+1%	U.S.
6	Nokia	29.44	29.97	-2%	Finland
7	Disney	28.04	29.26	-4%	U.S.
8	McDonald's	24.70	26.38	-6%	U.S.
9	Marlboro	22.18	24.15	-8%	U.S.
10	Mercedes	21.37	21.01	+2%	Germany

a bottle of Coca-Cola for five cents, wherever he is and at whatever cost to our company"¹⁴ was more than just great public relations. As a result of Coke's status as a military supplier, Coca-Cola was exempt from sugar rationing and also received government subsidies to build bottling plants around the world to serve WWII troops.¹⁵

TURN-OF-THE-CENTURY GROWTH IMPERATIVE

The 1990s brought a slowdown in sales growth for the carbonated soft drink (CSD) industry in the United States, achieving only 0.2 percent growth by 2000 (just under 10 billion cases) in contrast to the 5–7 percent annual growth experienced during the 1980s. While per capita consumption throughout the world was a fraction of the United States', major beverage companies clearly had to look elsewhere for the growth their shareholders demanded. The looming opportunity for the twenty-first century was in the world's developing markets with their rapidly growing middle-class populations.

¹⁴ *Ibid.*, p. 199.

¹⁵ *Ibid.*, pp. 200–201.

THE WORLD'S MOST POWERFUL BRAND

Interbrand's Global Brand Scorecard for 2003 ranked Coca-Cola the #1 Brand in the World and estimated its brand value at \$70.45 billion (see Exhibit 10.4).¹⁶ The ranking's methodology determined a brand's valuation on the basis of how much it was likely to earn in the future, distilling the percentage of revenues that could be credited to the brand, and assessing the brand's strength to determine the risk of future earnings forecasts. Considerations included market leadership, stability, and global reach, incorporating the brand's ability to cross both geographical and cultural borders.¹⁷

From the beginning, Coke understood the importance of branding and the creation of a distinct personality.¹⁸ Its catchy, well-liked slogans¹⁹ ("It's the Real Thing" [1942, 1969], "Things go better with Coke" [1963], "Coke Is It" [1982], "Can't Beat the Feeling" [1987], and

¹⁶ "The Top 100 Brands: Interbrand's Global Brand Scorecard 2003," Interbrand Special Report, *BusinessWeek*, August 4, 2003.

¹⁷ *Ibid.*

¹⁸ Nicholas Kochan, ed., and Interbrand, *The World's Greatest Brands* (Washington, NY: New York University Press, 1997).

¹⁹ Kevin Lane Keller, *Strategic Brand Management* (Upper Saddle River, NJ: Prentice Hall, 1998), p. 153.

a 1992 return to "Can't Beat the Real Thing")²⁰ linked that personality to the core values of each generation and established Coke as the authentic, relevant, and trusted refreshment of choice across the decades and around the globe.

INDIAN HISTORY

India is home to one of the most ancient cultures in the world, dating back over 5,000 years. At the beginning of the twenty-first century, 26 different languages were spoken across India, 30 percent of the population knew English, and greater than 40 percent were illiterate. At this time, the nation was in the midst of great transition, and the dichotomy between the old India and the new was stark. Remnants of the caste system existed alongside the world's top engineering schools and growing metropolises as the historically agricultural economy shifted into the services sector. In the process, India had created the world's largest middle class.

A British colony since 1769, when the East India Company gained control of all European trade in the nation, India gained its independence in 1947 under Mahatma Gandhi and his principles of nonviolence and self-reliance. In the decades that followed, self-reliance was taken to the extreme as many Indians believed that economic independence was necessary to be truly independent. As a result, the economy was increasingly regulated, and many sectors were restricted to the public sector. This movement reached its peak in 1977 when the Janta party government came to power and Coca-Cola was thrown out of the country. In 1991, the first generation of economic reforms was introduced and liberalization began.

COKE IN INDIA

Coca-Cola was the leading soft drink brand in India until 1977, when it left the country rather

than reveal its formula to the government and reduce its equity stake, as required under the Foreign Exchange Regulation Act (FERA), which governed the operations of foreign companies in India. After a 16-year absence, Coca-Cola returned to India in 1993, cementing its presence with a deal that gave Coca-Cola ownership of the nation's top soft-drink brands and bottling network. Coke's acquisition of local popular Indian brands, including Thums Up (the most trusted brand in India²¹), Limca, Maaza, Citra, and Gold Spot, provided not only physical manufacturing, bottling, and distribution assets but also achieved strong consumer preferences. This combination of local and global brands enabled Coca-Cola to exploit the benefits of global branding and global trends in tastes while also tapping into traditional domestic markets. Leading Indian brands joined the company's international family of brands, including Coca-Cola, Diet Coke, Sprite, and Fanta, plus the Schweppes product range. In 2000, the company launched the Kinley water brand, and in 2001, Shock energy drink and the powdered concentrate Sunfill hit the market.

From 1993 to 2003, Coca-Cola invested more than US\$1 billion in India, making it one of the country's top international investors.²² By 2003, Coca-Cola India had won the prestigious Woodruff Cup from among 22 divisions of the company, based on the three broad parameters of volume, profitability, and quality. Coca-Cola India achieved 39 percent volume growth in 2002 while the industry grew 23 percent nationally and the company reached break-even profitability in the region for the first time.²³ Encouraged by its 2002 performance, Coca-Cola India announced plans to double its capacity at an investment of \$125 million (Rs. 750 crore) between September 2002 and March 2003.²⁴

²¹ "Brands of Coca-Cola in India," Rai University, November 2004.

²² <http://www.coca-colaindia.com>.

²³ Sanjiv Gupta biography, Rai University.

²⁴ "Coca-Cola India to Double Capacity," *Kolkata*, March 8, 2003.

²⁰ http://www.portobello.com.au/portobello/reading/memorabilia_cocacola.htm.

Coca-Cola India produced its beverages with the help of 7,000 local employees at its 27 wholly owned bottling operations, supplemented by 17 franchisee-owned bottling operations and a network of 29 contract packers to manufacture a range of products for the company. The complete manufacturing process had a documented quality control and assurance program, including over 400 tests performed through out the process (see Exhibit 10.5).

The complexity of the consumer soft drink market demanded a distribution process to support 700,000 retail outlets serviced by a fleet that included 10-ton trucks, open-bay three wheelers, and trademarked tricycles and pushcarts that were used to navigate the narrow alleyways of the cities.²⁵ In addition to its own employees, Coke indirectly created employment for another 125,000 Indians through its procurement, supply, and distribution networks.

Sanjiv Gupta, president and CEO of Coca-Cola India, joined Coke in 1997 as vice president of marketing, and was instrumental to the company's success in developing a brand

EXHIBIT 10.5 Routine Tests Carried out by Bottling Operations and External Laboratories

	Process Parameter	No. of Tests
1.	Water	71
2.	Water treatment and auxiliary chemicals	68
3.	CO ₂	50
4.	Sugar	13
5.	Syrup	17
6.	Packaging material	25
7.	Container washing	17
8.	Finished product	18
9.	Market samples	15
10.	External lab	147
	Total	441

Source: The Coca-Cola Company, <http://www.myenjoyzone.com>.

²⁵ <http://www.coca-colaindia.com>.

relevant to the Indian consumer and tapping India's vast rural market potential. Following his marketing responsibilities, Gupta served as head of operations for company-owned bottling operations and then as deputy president. Seen as the driving force behind recent successful forays into packaged drinking water, powdered drinks, and ready-to-serve tea and coffee, Gupta and his marketing prowess were critical to the continued growth of the company.²⁶

THE INDIAN BEVERAGE MARKET²⁷

India's 1 billion people, growing middle class, and low per capita consumption of soft drinks made it a highly contested prize in the global CSD market in the early twenty-first century. Ten percent of the country's population lived in urban areas or large cities and drank 10 bottles of soda per year, while the vast remainder lived in rural areas, villages, and small towns, where annual per capita consumption was less than four bottles. Coke and Pepsi dominated the market and together had a consolidated market share above 95 percent. Although soft drinks were once considered products only for the affluent, by 2003, 91 percent of sales were made to the lower, middle, and upper-middle classes. Soft drink sales in India grew 76 percent between 1998 and 2002, from 5,670 million bottles to over 10,000 million (see Exhibit 10.6), and were expected to grow at least 10 percent

EXHIBIT 10.6 Soft Drink Sales in India

Fiscal Year	Million Bottles Sold
1998-1999	5,670
1999-2000	6,230
2000-2001	6,450
2001-2002	6,600
2002-2003	10,000

Source: "Soft Drink Sales Up 10.4%" *PTI*, September 29, 2004.

²⁶ Gupta biography.

²⁷ <http://www.indiastat.com>.

per year through 2012.²⁸ In spite of this growth, annual per capita consumption was only 6 bottles versus 17 in Pakistan, 73 in Thailand, 173 in the Philippines, and 800 in the United States.²⁹

With its large population and low consumption, the rural market represented a significant opportunity for penetration and a critical battleground for market dominance. In 2001, Coca-Cola recognized that to compete with traditional refreshments, including lemon water, green coconut water, fruit juices, tea, and lassi, competitive pricing was essential. In response, Coke launched a smaller bottle priced at almost 50 percent the amount of the traditional package.

MARKETING COLA IN INDIA

The post-liberalization period in India saw the comeback of cola, but Pepsi had already beaten Coca-Cola to the punch, creatively entering the market in the 1980s in advance of liberalization by way of a joint venture (JV). As early as 1985, Pepsi tried to gain entry into India and finally succeeded with the Pepsi Foods Limited Project in 1988, as a JV among PepsiCo, the Punjab government-owned Punjab Agro Industrial Corporation (PAIC), and Voltas India Limited. Pepsi was marketed and sold as Lehar Pepsi until 1991, when the use of foreign brands was allowed under the new economic policy, after which Pepsi bought out its partners and became a fully owned subsidiary, ending the JV relationship in 1994.³⁰

Although the joint venture was only marginally successful in its own right, it allowed Pepsi to gain precious early experience with the Indian market and served as an introduction of the Pepsi brand to the Indian consumer, such that it was well poised to reap the benefits when liberalization came. Although Coke benefited from Pepsi creating demand and developing

the market, Pepsi's head start gave Coke a disadvantage in the mind of the consumer. Pepsi's appeal focused on youth, and when Coke entered India in 1993 and approached the market selling an American way of life, it failed to resonate as expected.³¹

2001 MARKETING STRATEGY

Coca-Cola CEO Douglas Daft set the direction for the next generation of success for his global brand with a "Think local, act local" mantra. Recognizing that a single global strategy or single global campaign wouldn't work, locally relevant executions became an increasingly important element of supporting Coke's global brand strategy.

In 2001, after almost a decade of lagging rival Pepsi in the region, Coke India reexamined its approach in an attempt to gain leadership in the Indian market and capitalize on significant growth potential, particularly in rural markets. The foundation of the new strategy grounded brand positioning and marketing communications in consumer insights, acknowledging that urban versus rural India were two distinct markets on a variety of important dimensions. The soft drink category's role in people's lives, the degree of differentiation between consumer segments and their reasons for entering the category, and the degree to which brands in the category projected different perceptions to consumers were among the many important differences between how urban and rural consumers approached the market for refreshment.³²

In rural markets, where both the soft drink category and individual brands were undeveloped, the task was to broaden the brand positioning, whereas in urban markets, with their higher category and brand development, the task was to narrow the brand positioning, focusing on differentiation through offering

²⁸ Ibid.

²⁹ Ibid.

³⁰ Kavaljit Singh, "Broken Commitments: The Case of Pepsi in India," *PIRG Update*, May 1997.

³¹ Interview with Nymph Kaul, September 20, 2004.

³² Coca-Cola India, "Marketing: Questioning Paradigms," internal marketing presentation.

unique and compelling value. This lens, informed by consumer insights, gave Coke direction on the trade-off between focus and breadth that a brand needed in a given market and made clear that to succeed in either segment, unique marketing strategies were required in urban versus rural India.

BRAND LOCALIZATION STRATEGY: THE TWO INDIAS

INDIA A: "LIFE HO TO AISI"

"India A," the designation Coca-Cola gave to the market segment including metropolitan areas and large towns, represented 4 percent of the country's population.³³ This segment sought social bonding as a need and responded to aspirational messages, celebrating the benefits of their increasing social and economic freedoms. "*Life ho to aisi*" (life as it should be) was the successful and relevant tagline that marked Coca-Cola's advertising to this audience.

INDIA B: "THANDA MATLAB COCA-COLA"

Coca-Cola India believed that the first brand to offer communication targeted to the smaller towns would own the rural market and therefore went after that objective with a comprehensive strategy. "India B" included small towns and rural areas, constituting the other 96 percent of the nation's population. This segment's primary need was out-of-home thirst-quenching; the soft drink category was undifferentiated in the minds of rural consumers. Additionally, with an average Coke costing Rs. 10 and an average day's wages around Rs. 100, Coke was perceived as a luxury that few could afford.³⁴

In an effort to make the price point of Coke affordable for this high-potential market, Coca-Cola launched the Accessibility Campaign, introducing a new 200-mL bottle that was

smaller than the traditional 300-mL bottle found in urban markets, and concurrently cutting the price in half to Rs. 5. This pricing strategy closed the gap between Coke and basic refreshments like lemonade and tea, making soft drinks truly accessible for the first time. At the same time, Coke invested in distribution infrastructure to serve a disbursed population effectively and doubled the number of retail outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, increasing market penetration from 13 to 25 percent.³⁵

Coke's advertising and promotion strategy pulled the marketing plan together using local language and idiomatic expressions. "Thanda," meaning cool/cold, is also generic for cold beverages and gave "Thanda Matlab Coca-Cola" delicious multiple meanings. Literally translated to "Coke means refreshment," the phrase directly addressed both the primary need of this segment for cold refreshment while positioning Coke as a "Thanda," or a generic cold beverage just like tea, lassi, or lemonade. As a result of the Thanda campaign, Coca-Cola won *Advertiser of the Year* and *Campaign of the Year* in 2003.

RURAL SUCCESS

Comprising 74 percent of the country's population, 41 percent of its middle class, and 58 percent of its disposable income, the rural market was an attractive target, and it delivered results. Coke experienced 37 percent growth in 2003 in this segment versus the 24 percent growth seen in urban areas. Driven by the launch of the new Rs. 5 product, per capita consumption doubled between 2001 and 2003. This market accounted for 80 percent of India's new Coke drinkers, 30 percent of 2002 volume, and was expected to account for 50 percent of the company's sales in 2003.³⁶

³³ Ibid.

³⁴ Kaul, interview.

³⁵ Ibid.

³⁶ Ibid.

EXHIBIT 10.7 Coca-Cola Principles of Corporation Citizenship

Our reputation is built on trust. Through good citizenship we will nurture our relationships and continue to build that trust. That is the essence of our promise—The Coca-Cola Company exists to benefit and refresh everyone it touches.

Wherever Coca-Cola does business, we strive to be trusted partners and good citizens. We are committed to managing our business around the world with a consistent set of values that represent the highest standards of integrity and excellence.

We share these values with our bottlers, making our system stronger.

These core values are essential to our long-term business success and will be reflected in all of our relationships and actions—in the marketplace, the workplace, the environment and the community.

MARKETPLACE

We will adhere to the highest ethical standards, knowing that the quality of our products, the integrity of our brands and the dedication of our people build trust and strengthen relationships. We will serve the people who enjoy our brands through innovation, superb customer service, and respect for the unique customs and cultures in the communities where we do business.

WORKPLACE

We will treat each other with dignity, fairness and respect. We will foster an inclusive environment that encourages all employees to develop and perform to their fullest potential, consistent with a commitment to human rights in our workplace. The Coca-Cola workplace will be a place where everyone's ideas and contributions are valued, and where responsibility and accountability are encouraged and rewarded.

ENVIRONMENT

We will conduct our business in ways that protect and preserve the environment. We will integrate principles of environmental stewardship and sustainable development into our business decisions and processes.

COMMUNITY

We will contribute our time, expertise and resources to help develop sustainable communities in partnership with local leaders. We will seek to improve the quality of life through locally-relevant initiatives wherever we do business.

Responsible corporate citizenship is at the heart of The Coca-Cola Promise. We believe that what is best for our employees, for the community and for the environment is also best for our business.

Source: Coca-Cola Company website.

CORPORATE SOCIAL RESPONSIBILITY

As one of the largest and most global companies in the world, Coca-Cola took seriously its ability and responsibility to affect the communities in which it operated. The company's mission statement, called the Coca-Cola Promise, stated: "The Coca-Cola Company exists to benefit and refresh everyone who is touched by our business." The company has made efforts toward good citizenship in the areas of community, by improving the quality of life in the communities in which it operates, and the environment, by addressing water, climate change, and waste management

initiatives. Its activities also include The Coca-Cola Africa Foundation, created to combat the spread of HIV/AIDS through partnership with governments, UNAIDS, and other nongovernmental organizations (NGOs), and The Coca-Cola Foundation, focused on higher education as a vehicle to build strong communities and enhance individual opportunity (see Exhibit 10.7).³⁷

Coca-Cola's footprint in India was significant as well. The company employed 7,000 citizens and believed that for every direct job, 30–40 more were created in the supply chain.³⁸

³⁷ <http://www.coca-colaindia.com>.

³⁸ *Ibid.*

Like its parent, Coke India's corporate social responsibility (CSR) initiatives were both community- and environment-focused. Priorities included education, where primary education projects had been set up to benefit children in slums and villages; water conservation, where the company supported community-based rainwater harvesting projects to restore water levels and promote conservation education; and health, where Coke India partnered with NGOs and governments to provide medical access to poor people through regular health camps. In addition to outreach efforts, the company committed itself to environmental responsibility through its own business operations in India, including³⁹

- Environmental due diligence before acquiring land or starting projects.
- Environmental impact assessment before commencing operations.
- Ground water and environmental surveys before selecting sites.
- Compliance with all regulatory environmental requirements.
- Ban on purchasing CFC-containing refrigeration equipment.
- Wastewater treatment facilities with trained personnel at all company-owned bottling operations.
- Energy conservation programs.
- 50 percent water savings in the last seven years of operations.

PREVIOUS COKE CRISES

Despite Coke's reputation as a socially responsible corporate citizen, the company has faced its share of controversy worldwide, surrounding both its products and its policies in the years preceding the Indian pesticide crisis.

³⁹Ibid.

INGRAM ET AL. V. THE COCA-COLA COMPANY—1999⁴⁰

In the spring of 1999, four current and former Coca-Cola employees, led by information analyst Linda Ingram, filed bias charges against Coca-Cola in Atlanta federal court. The lawsuit charged the company with racial discrimination and stated: "This discrimination represents a company-wide pattern and practice, rather than a series of isolated incidents. Although Coca-Cola has carefully crafted African-American consumers of its product by public announcements, strategic alliances and specific marketing strategies, it has failed to place the same importance on its African-American employees."⁴¹

In the decades leading up to the suit, both internal and external warnings surrounding Coke's diversity practices were issued. In 1981, the Reverend Jesse Jackson, director of the Rainbow/PUSH Coalition, instigated a boycott against Coca-Cola, challenging the company to improve its business relationship significantly with the African-American community.⁴²

The Ware report, written by Senior Vice President Carl Ware, an African-American executive at the company, cited a lack of diversity at the decision-making level, a basic lack of workplace diversity, a "ghettoization" among blacks who worked for Cola-Cola, and an overt lack of respect for cultural differences, as well as an implicit assumption that African-American employees lacked the intelligence to meet the challenges of the highest executive levels.⁴³

Cyrus Mehri, one of the most visible and successful plaintiff advocates in the United

⁴⁰Nicola K. Graves and Randall L. Waller, "The Corporate Web Site as an Image Restoration Tool: The Case of Coca-Cola," *Proceedings of the 2004 Association for Business Communication 69th Annual Convention*, Cambridge, MA, October 25–29, 2004.

⁴¹H. Unger, "Coca-Cola Accused of a 'Companywide Pattern,'" *Atlanta Journal-Constitution*, April 24, 1999, p. H1

⁴²C. L. Hays, *The Real Thing: Truth and Power at the Coca-Cola Company* (New York: Random House, 2004).

⁴³Ibid.

States, represented the group and was skilled at leveraging the power of the media, creating a true crisis for the Coca-Cola Company and exerting tremendous pressure for settlement. In 2000, the lawsuit was settled for \$192.5 million after the company had sent mixed messages and damaging statements regarding the merit of the suit for over a year. Analysts identified the bias suit as a prime reason for the \$100 billion decrease in Coca-Cola's stock price between 1998 and 2000.⁴⁴

BELGIUM—1999⁴⁵

On June 8, 1999, 33 Belgian school children became ill after drinking Coke bottled at a local facility in Antwerp. A few days later, more Belgians complained of similar symptoms after drinking cans of Coke that had been bottled at a plant in Dunkirk, France, and 80 people in northern France were allegedly stricken by intestinal problems and nausea, bringing the total afflicted to over 250.

In the days following the first outbreak, 17 million cases of Coke from five European countries were recalled and destroyed. It was the largest product recall in Coke's history, and Belgian and French authorities banned the sale of Coca-Cola products for 10 days. Germany placed a temporary import ban on Coca-Cola produced in Belgium and the Netherlands, and Luxembourg banned all Coca-Cola products. Health ministers in Italy, Spain, and Switzerland warned people about consuming Coke products.

Coca-Cola sources explained that the contamination was due to defective carbon dioxide (CO₂) used at the Antwerp plant and that a wood preservative used on shipping pallets had concentrated on the outside of cans at the Dunkirk plant. The European Commission, however, believed production faults and contaminated pipes were more likely to be the cause of the problem.

⁴⁴K. MacArthur and R. Linnett, "Coke Crisis: Equity Erodes as Brand Troubles Mount," *Advertising Age*, April 24, 2000, p. 3.

⁴⁵"Coke & Pepsi in India," p. 8.

Although CEO Ivester was in Paris when the news broke, he flew home to Atlanta and kept silent, waiting over a week to issue his first public statement on the crisis, citing that "Coke would do whatever necessary to ensure the safety of its products." A Netherlands-based toxicologist Coke had hired issued a report on June 29 exempting the company from blame for the CO₂ impurity in Antwerp and the fungicide at Dunkirk. Although the product ban was lifted, Coke had a tremendous amount of work to do to win back consumer confidence.

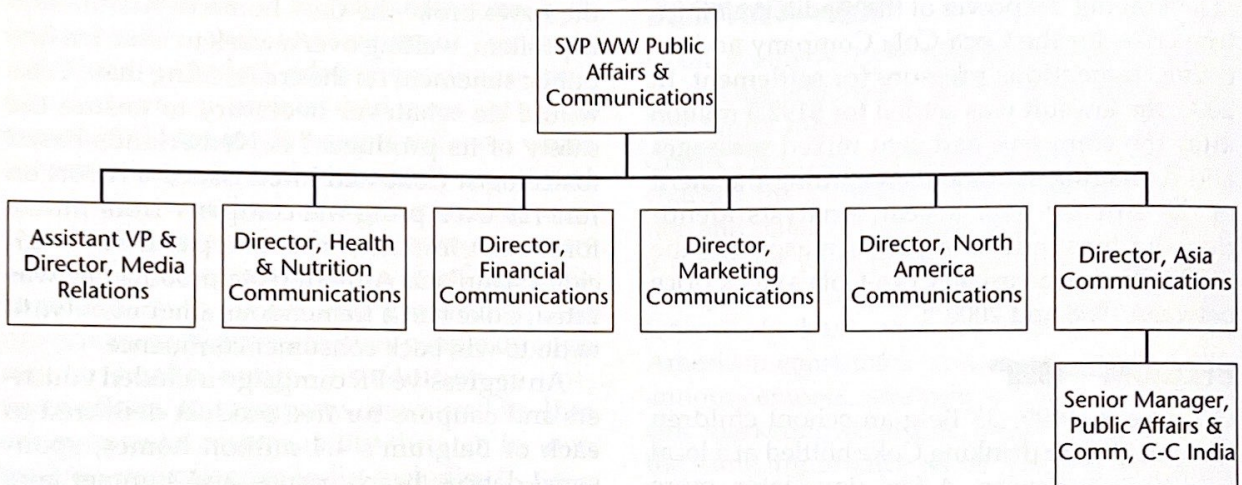
An aggressive PR campaign included vouchers and coupons for free product delivered to each of Belgium's 4.4 million homes; sponsored dances, beach parties, and summer fairs for teenagers; and significant television advertising reinforcing, "Today, more than ever, we thank you for your loyalty."

KINLEY BOTTLED WATER—2003

On February 4, 2003, the Center for Science and Environment (CSE) in India released a report based on tests conducted by the Pollution Monitoring Laboratory (PML) titled "Pure Water or Pure Peril?" Analyses of 17 packaged drinking water brands sold across the country revealed evidence of pesticide residues, including lindane, DDT, malathion, and chlorpyrifos. The CSE used European norms for maximum permissible limits for pesticides in packaged water, "because the standards set for pesticide residues by the Bureau of Indian Standards (BIS) are vague and undefined."⁴⁶ Coca-Cola's Kinley water brand had concentration levels 15 times higher than stipulated limits, top-seller Biserli had 79 times, and Aquaplus topped the list at 109 times.⁴⁷ In the wake of this statement, Coca-Cola remained largely silent, and the buzz went away.

⁴⁶"Pure Water or Pure Peril?" CSE press release, February 2003.

⁴⁷Ibid.

EXHIBIT 10.8 Corporate Communication at Coca-Cola

Source: Case writer derived from Coca-Cola Company website.

CORPORATE COMMUNICATION AT COCA-COLA

Corporate communication was a critical function at the Coca-Cola Company, given the number of constituencies both internal and external to the company. In addition, the complexity and global reach of the company's operations could not be centrally managed and instead demanded a matrixed team organization.

The senior communications position at the company, senior vice president, Worldwide Public Affairs & Communication, sat on the company's executive committee and reported to the chairman and CEO at the time of the crisis in India. Director-level corporate communication functions included media relations, nutrition communications, financial communications, and marketing communications, but the geographic diversity of the company's businesses required regionally based communication leaders in addition to the corporate resources in place. As a result, five regional communication directors serviced North America, Latin America, Asia, Europe, and Africa with their own teams of communications professionals (see Exhibit 10.8).

NGO ACTIVISM⁴⁸

Nongovernmental organizations initially evolved to influence governments, but by the early twenty-first century, many realized that targeting corporations and key corporate constituents such as investors and customers could be an even more powerful way to effect change. Along with their ability to focus, gain attention, and act quickly was the high level of credibility NGOs had cultivated with many constituencies. This credibility stemmed in part from their emotional, rather than fact-based, appeals and the impassioned nature of their arguments.

The most common tactic of NGOs was to develop campaigns against business through which they garnered support from consumers and the media. These campaigns, such as Greenpeace's attack on Shell Oil following the company's decision to dump the Brent Spar oil rig in the ocean in the 1990s, typically focused on a single issue; targeted companies with successful and well-known brands such as McDonald's and Nike; and were augmented by market trends such as the homogenization created by

⁴⁸Paul A. Argenti, "Collaborating with Activists: How Starbucks Works with NGOs," *California Management Review* 47, no. 1 (Fall 2004).

chains like Walmart and Starbucks. The NGOs realized that anticorporate campaigns could be far more powerful than antigovernment campaigns. Global Exchange's attack on Nike for sweatshop labor conditions in the 1990s, for example, was one of the most highly publicized and also one of the most successful antibusiness campaigns by an NGO.

CENTER FOR SCIENCE AND ENVIRONMENT

The CSE, an NGO, was established in India in 1980 by a group of engineers, scientists, journalists, and environmentalists to "catalyze the growth of public awareness on vital issues in science, technology, environment, and development."⁴⁹ Led by Sumita Narain, a former schoolmate of Coke India CEO Gupta, the CSE's efforts included communication for awareness, research and advocacy, education and training, documentation, and pollution monitoring.

Spurred by the February 2003 report on bottled water and questions such as, "if what we found in bottled water was correct, then what about soft drinks?" the CSE's August 2003 report claimed that soft drinks were extremely dangerous to Indian citizens, according to tests conducted at the Pollution Monitoring Laboratory (PML). All samples contained residues of lindane, DDT, malathion, and chlorpyrifos, toxic pesticides and insecticides known to cause serious long-term health issues. Total pesticides in all Coca-Cola brands averaged 0.0150 mg/l, or 30 times higher than the European Economic Commission (EEC) limit. PML also tested samples of Coke and Pepsi products sold in the United States to see if they contained pesticides; they did not.

The CSE report called on the government to put in place legally enforceable water standards and chastised the multinationals for taking advantage of the situation at the expense of consumer health and well-being.

⁴⁹ <http://www.cseindia.org>.

INDIAN REGULATORY ENVIRONMENT⁵⁰

The main law governing food safety in India was the 1954 Prevention of Food Alteration Act (PFA), which contained a rule regulating pesticides in foods but did not include beverages. The Food Processing Order (1955) required that the main ingredient used in soft drinks be "potable water," but the Bureau of Indian Standards (BIS) had no prescribed standards for pesticides in water. One BIS directive stated that pesticides must be absent and set a limit of 0.001 part per million, but the Health Secretary admitted, "There are lapses in PFA regarding carbonated drinks."⁵¹

Indian law enforcement was minimal, with virtually no convictions under PFA. In the absence of national standards, NGOs such as the CSE turned to the United States and the European Union for "international norms." The appropriateness and feasibility of these standards for developing nations, however, remained a question for many. Under EU food laws, for example, milk, fruit, and basic staples such as rice and wheat would need to be imported into India to satisfy safety standards.

THE INITIAL RESPONSE

The day after the CSE's announcement, Coke and Pepsi came together in a rare show of solidarity at a joint press conference. The companies attacked the credibility of the CSE and their lab results, citing regular testing at independent laboratories proving the safety of their products. They promised to provide these data to the public, threatened legal action against the CSE while seeking a gag order, and contacted the U.S. Embassy in India for assistance.

⁵⁰ "Coke & Pepsi in India," p. 3.

⁵¹ Supriya Bezbaruat and Malini Goyal, "The Gulp War," *India Today*, August 25, 2003, pp. 50–53.

EXHIBIT 10.9 Myths and Facts from Coca-Cola India Website

Since August 5, 2003 the quality and safety of Coca-Cola and PepsiCo products in India have been called into question by a local NGO, the Centre for Science and Environment (CSE). The basis of the allegations are [sic] tests conducted on products of Coca-Cola and PepsiCo by CSE's internal unaccredited laboratory, the Pollution Monitoring Laboratory.

In India, as in the rest of the world, our plants use a multiple barrier system to remove potential contaminants and unwanted natural substances including iron, sulfur, heavy metals as well as pesticides. Our products in India are safe and are tested regularly to ensure that they meet the same rigorous standards we maintain across the world.

The result of these allegations has been consumer confusion, significant impact on the sale of a safe and high-quality product, and the erosion of international investor confidence in the Indian business sector. This situation calls for the development of national sampling and testing protocols for soft drinks, an end to sensationalizing unsubstantiated allegations, and co-operation by all parties concerned in the interests of both Indian consumers and companies with significant investments in the Indian economy.

The facts versus the fiction False statements made in recent weeks have led to false perceptions by Indian consumers:

Myth	Coca-Cola products in India contain pesticide residues that are above EU norms.
Fact	Throughout all of our operations in India, stringent quality monitoring takes place covering both the source water we use as well as our finished product. We test for traces of pesticide in groundwater to the level of parts per billion. This is equivalent to one drop in a billion drops. For comparison's sake, this would also be equivalent to measuring one second in 32 years, or less than one person in the entire population in India. These tests require specialized equipment at accredited labs to have accurate results. Even at these stringent miniscule levels we are well within the internationally accepted safety norms.
Myth	Coca-Cola products sold in India are "toxic" and unfit for human consumption.
Fact	There is no contamination or toxicity in our beverage brands. Our high-quality beverages are—and have always been—safe and refreshing. In over 200 countries across the globe, more than a billion times every day, consumers choose our brands for refreshment because Coca-Cola is a symbol of quality.
Myth	Coca-Cola has dual standards in the production of its products, one high standard for western countries, another for India.
Fact	The soft drinks manufactured in India conform to the same high standards of quality as in the USA and Europe. Through our globally accepted and validated manufacturing processes and Quality Management systems, we ensure that our state-of-the-art manufacturing facilities are equipped to provide the consumer the highest quality beverage each time. We stringently test our soft drinks in India at independent, accredited and world-class laboratories both locally and internationally.
Myth	In India the soft drinks industry is virtually unregulated.
Fact	There are no standards for soft drinks in the US, the EU, or India. In India, water used for beverage manufacture must conform to drinking water standards. The water used by Coca-Cola conforms to both BIS and EU standards for drinking water and our production protocols ensure this through a focus on process control and testing of the water used in our manufacturing process and the final product quality.
Myth	Coca-Cola has put out results for Kinley water only and not for their soft drinks.
Fact	The results of product tests conducted by TNO Nutrition and Food Research Laboratory in the Netherlands is [sic] conclusive and is [sic] available on The Science Behind Our Quality web page.
Myth	International companies like Coca-Cola are "colonizing" India.
Fact	The Coca-Cola business in India is a local business. Our beverages in India are produced locally, we employ thousands of Indian citizens, our product range and marketing reflect Indian tastes and lifestyles, and we are deeply involved in the life of the local communities in which we operate. The Coca-Cola business system directly employs approximately 10,000 local people in India. In addition, independent studies have documented that, by providing opportunities for local enterprises, the Coca-Cola business also generates a significant employment "multiplier effect." In India, we indirectly create employment for more than 125,000 people in related industries through our vast procurement, supply and distribution system.
Myth	Farmers in India are using Coca-Cola and other soft drinks as pesticides by spraying them on their crops.
Fact	Soft drinks do not act in a similar way to pesticides when applied to the ground or crops. There is no scientific basis for this and the use of soft drinks for this purpose would be totally ineffective. In India, as in the rest of the world, our products are world class and safe and the treated water used to make our beverages there meets the highest international standards.

Source: Coca-Cola Company website.

Coca-Cola India's CEO Sanjiv Gupta published the following statement for the Indian public:⁵²

You may have seen recently in the media some allegations about the quality standards of our products in India. We take these allegations extremely seriously. I want to reassure you that our products in India are safe and are tested regularly to ensure that they meet the same rigorous standards we maintain across the world.

Maintaining quality standards is the most important element of our business and we cannot stand by while misleading and unaccredited data is used to discredit trusted and world-class brands. Recent allegations have caused unnecessary panic among consumers in India and, if unchecked, would impair our business in India and impact the livelihoods of our thousands of employees across the country.

This site is about the truth behind the headlines. It provides some context and facts on these issues and we hope it helps you understand exactly why you can trust our beverage brands and continue to enjoy them as millions of Indians do each day.

Sanjiv Gupta, Division President, Coca-Cola
India

In the following days, the Delhi High Court asked the government to convene an expert committee to test and report on the safety of soft drinks within three weeks and to revise existing standards to include pesticide norms. Coca-Cola and Pepsi launched independent campaigns to reassure the public, taking out full-page newspaper advertisements and directing consumers to their corporate websites to review test results and safety protocol in greater detail (see Exhibit 10.9). In spite of these actions, the public seemed to believe the CSE's claims, and the crisis was far from over for the beverage giants. With sales continuing to experience a precipitous drop, one Delhi medical student's sentiments appeared to be widespread: "For a person drinking at least one bottle a day, the report came as a rude

shock. I haven't picked up a bottle today and most definitely will not consume soft drinks in the future. The reports of pesticides and other pollutants have made soft drinks a strict no-no and we will now stick to juices and plain drinking water."⁵³

GUPTA'S DILEMMA

As he contemplated the crisis at hand, Sanjiv Gupta questioned what action, if any, was necessary. Coke India was well within the country's legal guidelines, and the crisis had not been widely reported outside of India. Gupta knew that the Indian public had a short attention span and had reason to think that it wouldn't be long before the CSE's report faded, just as the Kinley water issue had earlier in the year.

On the other hand, he wondered if the situation might offer the company an opportunity to display higher standards of social responsibility at a time when it needed to differentiate itself from the competition. Multinationals had slipped in numerous situations of late and were being blamed for not adhering to the same standards in developing countries as in industrialized nations. The additive effect of this negative press meant that the potential damage to Coke's reputation was even greater. Finally, an ineffective resolution would be a devastating blow to the momentum Coke had gained after three long years of work on the marketing front.

CASE QUESTIONS

1. What are the key problems that Gupta should focus on in the short term and in the long term?
2. How would you evaluate the crisis?
3. How well prepared was Coke India to deal with the CSE's allegations?
4. What is your recommendation for Coke's communication strategy? Who are the key constituents?

⁵² <http://www.coca-colaindia.com>.

⁵³ "Shocked Delhites Stay Away from Soft Drinks," *The Hindu* (New Delhi), August 7, 2003, p. 1.

5. Could Coke India have avoided this crisis?
6. What should Gupta do now?

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