



A STING IN THE COLA WARS: A CASE STUDY IN ETHICS AND INDUSTRIAL ESPIONAGE

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The letter, sent in a Coca-Cola business envelope, was addressed to Antonio J. Lucio, senior vice president of Insights and Innovation for PepsiCo, Inc., and arrived at PepsiCo's headquarters in Purchase, New York. Even more surprising than an envelope from Coke coming to PepsiCo, was the letter it contained. The letter offering Coke's four-year marketing plan appears verbatim in Table 1 below.

Table 1
Letter to Antonio J. Lucio

Dear Mr. Lucio,

I've contemplated for weeks, exactly how best to contact you concerning the information I have, that will be valuable to your company and its position in the world of beverages.

Simply put, I have very detailed and confidential information about Coca-Colas marketing campaigns for the next 4 years. This information includes their marketing strategy for Coca-Cola Blak, the strategies and tools information they have for a new style bottle they plan to release, their 2005 Global Brand contribution analysis, ... and much more very confidential information that can assure your company gains a very decisive position in the "Cola Wars". I can even provide you with specific information that you may want. Yes, I am employed at a high level with Coca-Cola, but trust me; my motives for offering you this information are justified.

Just think, instead of having to second-guess what your number one competitor is doing, you will know **exactly** what products and marketing campaigns they are going to set into motion. What if you knew what markets they were going to move into and what markets they were going to move out of... and beat them to the punch?

I have studied these plans and they are attempting to move their product into a whole different league.

I think you get the point, so I am not going to waste anymore of your time. The bottom line is I have the information and I am looking to deliver it to the highest bidder.

However, since your company can benefit from this information the most, I am exclusively offering it to you for the next 2 weeks. If I don't hear from you within that time I will look for another place to market this information. If you are not the decision maker, I suggest that you get this information to the person who is.

I'm sure you'd like proof of my claims and I am willing to provide it, for free. But if I show you I'm for real, you had better be ready to close the deal. But time is of the essence. My name is Dirk and I can be reached at (xxx) xxx-xxxx.

Source: U.S. Attorney's Office Northern District of Georgia

Mr. Lucio must have been very surprised by this apparent breach of Coca-Cola's security. Its level of protection for the formula for Coca-Cola, one of the best kept secrets in the business world, was legendary (Coca-Cola v. Coca-Cola, 1985). Mr. Lucio also had compelling reasons to be interested in information with the potential to give PepsiCo a competitive advantage, as he was responsible for accelerating growth across all its divisions. The information, if genuine, was extremely valuable and the stakes huge.

The rivalry between Coca-Cola and PepsiCo had been intense for more than a century. In the words of Roger Enrico, former president and CEO of PepsiCo, "... our battles are very real ... (t)ens of billions of dollars are at stake (in) ... 'market share' - the sales performance of a soft drink compared to others in its category, (as well as) ... something intangible, but no less important: pride" (Enrico & Kornbluth, 1986, pp. 2-3). According to a consultant for PepsiCo, every one of its employees identified Coke as the enemy (Brooker & Burke, 2006, p. 71). This animosity bubbled into a fight between delivery truck drivers for Pepsi and Coke over shelf space at a Wal-Mart (Miele, 2007). The drivers were accused of trying to run over each other with pallets of soda bottles. The maneuvering by management was no less fervent. In the words of a consultant, "You've got two very strong competitors. They hate each other equally ... (a)nd they're going to continue to slug it out I don't think you're going to see either side give an inch" (Neff, 2001, p. 25).

The letter posed legal and ethical dilemmas for PepsiCo vice president Lucio and a management dilemma for Coca-Cola. What should Lucio do with the letter, if anything? What are the consequences of each alternative? What should Coca-Cola do to better protect its valuable trade secrets?

Economic Espionage vs Competitive Intelligence

The fierce competition in high-stakes corporate competition like the Cola Wars has tempted employees to disclose information. Economic espionage is a serious threat costing U.S. business as much as \$200 billion annually, (U.S. Attorney General's Office, 2002) and more often than not, the culprit is an insider (ASIS, 2007) as in this case. The intensity of business competition and advances in technology and analytical techniques that feeds criminal espionage also has led to a shadow industry considered legal if not ethical. Company units and a for-hire professional

industry have been created specifically for the purpose of uncovering competitive intelligence (CI), meaning information providing competitive advantage. Common techniques for gathering CI include:

- Examining public information sources such as websites, databases and blogs;
- Attending trade shows;
- Analyzing company communications such as earning calls and SEC filings;
- Researching resume and recruitment databases;
- Tracking patent applications;
- Monitoring social media and networks;
- Mystery or secret shopping.

An estimated 60% of companies have adopted an organized system for collecting CI and in those with revenues over \$10 billion, 82% make systemized use of it (SCIP FAQ, n.d.). A study conducted by PriceWaterhouseCoopers found that "virtually all fast-growth CEOs surveyed view competitor information as important to the profit growth of their company." Indeed, many schools offer courses and even programs in competitive intelligence (SCIP, Competitive Intelligence Education, n.d.). In other words, CI has become generally accepted as a part of doing business. Facing internal and external threats to its secrets, a strategic plan to manage and protect trade them is essential to the success of many, if not most, businesses.

PepsiCo Background

Publicly, PepsiCo attributed its success to superior products, high standards of performance, distinctive competitive strategies and the high level of integrity of its people (About the Pepsi-Cola Company, n.d., para. 6). To help guide employees in their business decision making, PepsiCo created a Mission, Values Statement and Code of Conduct. As the PepsiCo CEO stated in a letter to employees prefacing the Code of Conduct:

PepsiCo is a great company. The values we live by and our Code of Conduct help to keep it that way. Ethics and integrity are the foundation of our past success—and the keys for our future. So I ask that you please read these documents carefully and that you make a commitment to live by them—every day (PepsiCo Worldwide Code of Conduct, n.d., p 2, para. 5).

PepsiCo's mission and code of conduct were equally lofty and ambitious:

(Our mission is to) be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce healthy financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity (PepsiCo Worldwide Code of Conduct, n.d., p. 3);

We are committed to the continuation of free enterprise and the legal and regulatory frameworks that support it. Therefore, we recognize the importance of laws that prohibit restraints of trade, predatory economic activities and unfair or unethical business practices. In all of its business dealings with suppliers, customers and competitors, PepsiCo will:

- Compete vigorously and with integrity.
- Treat all customers and suppliers honestly, fairly and objectively.
- Avoid any unfair or deceptive practice and always present our services and products in an honest and forthright manner. (PepsiCo Worldwide Code of Conduct, n.d., p. 5)