

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 Fell 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 Kays, 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/Indiacases>.

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 expose, 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.