

Case 6-6

Coca-Cola Co. (B)

Mary Minnick is not a pat-you-on-the-back kind of boss. She heads marketing, strategy, and innovation at Coca-Cola Co., and if ever there was a company that does not deserve pats on the back, Coke is it. "I tend to be quite discontented in general," she told investors last December. "It will never be fast enough or soon enough or good enough."

Minnick is blunt. She's also worldly and smart, with an acerbic sense of humor. She can be charming when she's not being stern. In her first year in the newly expanded post, she has been a shock to the sclerotic complacency that has marked Coke for the past decade. "There was a culture of politeness and consensus and talking around an issue, rather than taking it head-on," she says. If Coke employees are upset by the change, too bad: "That's one thing I won't work on."

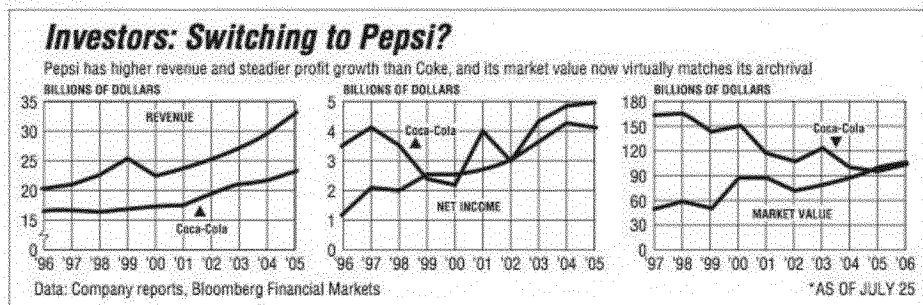
Minnick, 46, advocates a strategy that would have been heresy to legendary ex-Chief Executive Roberto Goizueta and the old, Warren E. Buffett-backed board. They turned the company into one of the world's preeminent blue chips in the 1980s and '90s by focusing squarely on soda. To Minnick, growth means more than simply boosting sales of Coca-Cola Classic. And innovation involves more than repackaging existing beverages in slightly different flavors. Minnick is exploring new products as far afield as beauty and health care. If she accomplishes even half of what's on her drawing board, she'll usher in the greatest flowering of creativity in the company's history. And should her plan succeed, she could end up CEO, if not at Coke then

almost certainly elsewhere (Target Corp. has already put her on its board). Either way, Coke will end up a dramatically different company.

Coca-Cola is an American icon, yet it is in danger of slipping into irrelevance. Consumers are flocking to a new breed of coffees, juices, and teas—all categories where Coke has historically been weak. For the longest time, Coke seemed in denial, more fixated on reversing the stagnation in soda than investing in the alternative beverages that consumers were clamoring for. Archrival PepsiCo Inc. has eclipsed it in many important ways, including stock performance, earnings growth, talent development, and buzz. Even though Coca-Cola still racks up more annual profit than Pepsi, Pepsi now has a market value, \$103 billion, virtually equal to Coke's. Just 10 years ago, Coke was three times bigger (Exhibit 1).

Now, Coke is at a turning point. On the one hand, it is still the most valuable brand in history, according to consultancy Interbrand, which measures how much a company's brand drives its sales and profits. On the other hand, the value of the Coke brand has declined 20% since 1999, to \$67 billion, according to Interbrand. That's one of the largest percentage drops of any multinational during that period. The challenge of reversing this trend, of making Coke more exciting, innovative, and relevant, falls largely on Minnick's shoulders. The marketing dynamo has helped bring a new sense of urgency to everything, from how the company advertises (one of her first moves was replacing Coke's lead agency, Berlin Cameron & Partners) to how it develops new drinks. "She did not look to me like the other leaders at Coca-Cola. She looked like someone I would have met at GE," says Jeff DeGraff,

EXHIBIT 1



a University of Michigan business professor who has consulted for Coke.

Minnick's top priority has been jump-starting Coke's product development. Under her leadership, Coke has been unusually prolific, launching more than 1,000 new drinks or new variations of existing brands worldwide in the past 12 months, including a new male-oriented diet drink called Coca-Cola Zero as well as a brisk-selling coffee-flavored cola called Coca-Cola Blak. But Minnick knows that, in the long run, new flavors and brand extensions won't be enough to make Coke a growth company again. So with the solid backing of CEO E. Neville Isdell, to whom she reports, Minnick is pushing to transform Coke from a soda-centric organization that was long content to offer "me-too" products in emerging categories to one on the cutting edge of consumer trends.

At a private, mid-May meeting of Coke's top 200 global marketers in Istanbul, Minnick implored her troops to stop thinking in terms of existing drink categories and to start thinking broadly about why people consume beverages in the first place. The goal: to come to market with products that satisfy those needs before the competition. To that end, Minnick loves to talk about what she considers the 10 primal "need states" that consumers have, including "hunger and digestion," "mental renewal," and "health and beauty." Creating drinks that meet each of those need states may mean inventing entire new categories. Imagine drinks, for example, that are fortified with vitamins or nutrients and provide women the same benefits as a facial scrub or cold cream.

In the future, Minnick says, the winners will be the beverage companies that develop breakthrough products that, more often than not, cross over traditional beverage categories—just as Red Bull did when it single-handedly created the energy drink segment. "Like Henry Ford said, 'If I'd asked the consumer what they wanted, they'd have said a faster horse,'" she told her staff in Istanbul.

To be sure, some of what's currently emerging from Coke are catch-up products that finally give it an entrée into some hot categories. The Atlanta behemoth just launched a new bottled tea called Gold Peak, and in coming months it'll unveil a premium coffee drink licensed from chocolatier Godiva to compete with bottled Frappuccinos sold by Pepsi in a venture with Starbucks. And Coke is using new packaging to help reinvent some of its older brands, including the flagship Coca-Cola Classic. Earlier this year, the company

began rolling out sleek, aluminum designer Coke bottles with etched, glow-in-the-dark graphics, for sale initially in a few dozen nightclubs around the world. The hope is that the designs will improve the 120-year-old brand's image with trendsetters.

Big Ambitions

But these are small victories, and Minnick knows that. At the Istanbul conference, the morning after a feel-good opening speech, she gave her staffers a cold-water wake-up call in the form of a rugged marketing critique. She was rapid-fire, speaking quickly but clearly from a dais to her 200 troops: "I don't think we've nailed the diet and light categories. I think our consumer insights are too superficial," she said. "We need to refine the Fanta vision. It's got to be more than 'Fanta fun.' It didn't grow as fast as it could last year."

Such frank appraisals are vintage Minnick. She may be brusque, but her staffers say that as a veteran of Coke, Minnick has the clout and political savvy to make sure things happen. Coke's chief creative director, Esther Lee, notes that while some previous chief marketing officers struggled to get Coke's country managers to adopt a new global ad campaign, with Minnick's backing she had no trouble getting buy-in for the new "Coke Side of Life" campaign. "I could not have done a global campaign before Mary," says Lee.

Minnick's bigger ambitions, if they take hold, would utterly redefine Coca-Cola's image as a purveyor of sugar-laden junk that you shouldn't give your kids. Based on prototypes that *BusinessWeek* saw in Istanbul, look for "nutraceutical" versions of Diet Coke, or new juices designed to help women with skin care, weight management, and detoxification. In the past year, Coke has launched 18 clinical trials to test the health benefits of different new ingredients that it hopes to use in future drinks. In Japan, Minnick's former stomping grounds, Coke is already selling some of these very products. As one of Minnick's top lieutenants, Penny McIntyre, told marketing staffers at the Istanbul summit: "It's not far away that not only can you feel better but you can look better through healthy beverages. We are going to transform our beverages and, along the way, transform the company."

That's a stirring vision, but one fraught with challenges. For one, drinks that make health claims could require government approval. An ever bigger challenge may be winning support from the company's vast network of independent bottlers. Rather than dumping

finished product on the bottlers, as her predecessors did, she's engaging them as products are being conceived to ensure their input and cooperation. "There are a lot of bottlers who realize now that it's innovate or die," says Ron Wilson, president of a large Coke bottler in Philadelphia.

Minnick's role as corporate agitator may appear surprising, given that she's a Coke lifer. But she was pushing "non-carb" beverages—Coke parlance for anything that isn't a carbonated soft drink—back when doing so was career suicide. Not coincidentally, perhaps, she made her name far from Atlanta headquarters. As head of operations in Japan and, in time, all of Asia, she sold canned coffees, teas, and vitamin drinks in cultures where soda is an acquired taste.

While Minnick gets plenty of attention these days, she doesn't necessarily crave the spotlight. Minnick grew up in rural Nova, Ohio, a town so small it had no stoplight and just one stop sign. From the age of 13, she spent summers working on her father's golf course mowing fairways, raking sand traps, and flipping burgers in the clubhouse. Minnick helped pay her way through Bowling Green State University in the late '70s by slinging hash in the student cafeteria. ("There I am trying to look cool for this cute guy when I'm wearing a hairnet and an orange polyester uniform," she laughs.)

She earned an MBA from Duke University in 1983, and started her career on the bottom rung of the Coke ladder, as a sales rep in its fountain division. "My job was figuring out how to sell more beverages to a hot dog chain in Minneapolis in January, driving a car with 150,000 miles on it, living in a one-bedroom apartment in a horrible part of Atlanta, and questioning the meaning of life," she recalls.

"Wolf Sweat"

Minnick did well enough to earn a promotion into Coke's vaunted marketing department. In time she convinced management to let her lead a new team being formed to develop new drinks to counter emerging non-carb rivals such as Snapple and Gatorade, which were starting to steal customers from Coke's soft drink business. Given Coke's soda-centric culture, it was a lonely vigil. When Minnick and her team developed a clear beverage called Nordic Mist to take on a new rival drink called Clearly Canadian, some senior Coke execs derisively referred to it as "Wolf Sweat." Says Minnick: "I walked into a senior manager's office in [Coke's]

North America [division]—and I won't tell you who, but he was very senior—and he said, 'Mary, every case of Powerade and Nordic Mist I put on the truck, I have to take a case of Coke off. That doesn't pay off.'"

Similarly, when Minnick's team created Fruitopia to take on Snapple, bottlers balked at the expensive glass bottles and its more expensive brewing process. Against Minnick's wishes, management buckled, ordering a switch to plastic bottles and the same "cold fill" process used to make soda. Those two changes served to cheapen the product in the eyes of consumers and, with sales faltering, Coke eventually pulled Fruitopia from the U.S. market.

Over time, fighting battles against recalcitrant senior executives who didn't see a future outside of soda came at a cost to Minnick. "One of the senior managers of the company said to me, 'You've pushed too hard, you've alienated everyone in North America, your passion for non-carbs has gotten in the way of what's right for Coke, and nobody wants to work with you anymore,' " she remembers. Dejected, Minnick took the LSAT and applied to law school.

But her spunk and resourcefulness hadn't gone unnoticed by Sergio Zyman, who had returned to Coke in 1993 as head of marketing. He persuaded her to stay and provide marketing support to Coke's Asian operations. By 1997, Minnick found herself being shipped overseas to run the company's South Pacific group, covering Indonesia, Australia, New Zealand, and all of the Pacific Islands.

Almost immediately, the Asian economic crisis crippled the region and Coke's business there. With currencies plunging and violence rising, Coke's Indonesian bottler pleaded with Minnick to simply shut down operations in that country until after the crisis passed. But Minnick refused, opting to ride out the storm even though that meant evacuating Coke employees on two different occasions during ensuing riots. The company emerged from the crisis even stronger. "It was a great success story. We got credit from the [public] for staying," she says.

Proving Ground

As her reward, in early 2000 Minnick was named to head up all operations in Japan, which had historically generated 20% of Coke's profit until a slump in the late '90s. Minnick's full-frontal management didn't set well with the Japanese male staffers at Coke's local headquarters in Tokyo, some of whom complained privately

in letters to then-CEO Douglas N. Daft in hopes of having Minnick reassigned. Daft's response to the instigators: "This woman will be there longer than you. She has my full support." Still, Minnick now admits that she had to dial back because bottlers already had begun swapping "Mary Minnick stories." "I think I started to temper my management style in Japan," she acknowledges. "Because of the culture, you have to learn patience and a certain sense of decorum. They don't appreciate anger and displays of emotion." She slashed operating costs, invested in state-of-the-art vending machines popular with Japanese teens, and after two years of flat-to-declining revenues, sales began to grow between 2% and 4% a year. That earned Minnick another promotion in 2002, to head up all of Coke's Asian operations.

Japan was a crucial period for Minnick. It was the first real test of her leadership ability. And it was the place where she realized the full potential of non-carb drinks, which are now a fundamental part of her turnaround plan for all of Coke. In most of the company's markets, Coke Classic is the cash cow. But in Japan, the company generates the bulk of its profits, surprisingly, from canned coffees and 200 or so eclectic products like Real Gold, a hangover cure sold in a small bottle, and Love Body, a tea marketed to calorie-counting women (and which contains an ingredient that some Japanese believe increases bust size). Coke's marketing team in Japan knew how to ride the trends, introducing as many as 100 new products a year, some with a life expectancy of just a few months. Thanks to constant data reports from 7-Eleven stores, "we knew within the first four weeks if we were going to be in trouble or not," she recalls.

While Minnick was helping get Asia back on track, all was not well with the rest of Coke (Exhibit 2). It had overinvested in some emerging markets, and soft drink sales had flattened. Daft (who is on the board of The McGraw-Hill Companies, *BusinessWeek's* parent) resigned in 2004 under pressure from the board, which brought in Isdell. From the moment he arrived, Isdell preached the need for Coke to become more aggressive in selling alternative beverages. He spent an additional \$400 million a year to boost marketing and fund new product development. And as he held a series of management retreats to lay out his vision, he became so impressed with Minnick's intellect that he approached her on a Friday morning in May, 2005, to become head of marketing.

"Plan, Plan, Plan"

She turned him down on the spot. "I had spent 10 years living in Asia, and I loved it—the people, the culture, the way of living." But Isdell persisted in a second meeting that same day. After she spent a weekend soul-searching, Minnick's boyfriend, Simon Cooper, who owns a fly-fishing tour service in Britain, encouraged her to take the job and "give it a year." Minnick relented, but only after Isdell assured her of his full backing to overhaul Coke's marketing. Minnick knew all too well that Coke had talked the talk about innovation but little had really happened.

Once back in the U.S., Minnick didn't bother ingratiating herself with her staff. First, she laboriously analyzed Coke's performance over each of the past 10 years and produced a "look in the mirror" report that assessed the company's marketing moves, both good

EXHIBIT 2

Coming Up Flat

Sales of soda—Coke's signature product—have been stagnant as new beverage categories have captured consumers' attention



Data: Beverage Marketing Corp. of New York, *BusinessWeek*

and bad, during that period. She brought in management gurus like Ram Charan and Michigan's DeGraff. Recalls DeGraff: "When I got to Coke, they liked to draw up PowerPoint slides, and they liked to plan, plan, plan. They were very slow."

In what must have been a humbling act for a company that had been considered one of the preeminent growth machines during Goizueta's glorious reign, Minnick dispatched top aides to companies like British Petroleum, Apple Computer, and Kraft to study how those companies approached innovation. "We asked ourselves, 'How can we do it in an Apple way? It's the way they did it in a 'Think Different' way.'" By contrast, too much of what passed for innovation at Coke over the years had been incremental line extensions that too often didn't really move the needle. "You ended up having a single flavor change—a key lime Fanta—and not transformational innovation," she says.

Culture of Candor

Coke's genteel Southern ways meant managers talked around problems, but Minnick tried to instill a culture of accountability in the marketing department and with the company's ad agencies. Minnick doesn't apologize. "Historically, we had a culture where putting the hard issue on the table made some people uncomfortable," she says. Some former Coke marketing executives praise Minnick for raising the bar. "It's a company full of believers with not enough performers," says Zyman, who served two stints as chief marketing officer during the 1980s and '90s. "She has been right to try to shake things up" (Exhibit 3).

One of the first things that Minnick shook up was advertising. Over the decades, Coke was known for creating some of the greatest ads ever. A 1971 commercial jingle, *I'd Like to Teach the World to Sing*, became a peace anthem during the Vietnam War. But since the late '90s, Coke ads have been mostly forgettable. Within days of taking the job, Minnick began killing ads left and right, including one somber, European ad that showed angry teens clanging Coke bottles against light posts as they stormed the streets and gathered at a cliff. Before it was over, Minnick fired Coke's lead agency, Berlin Cameron & Partners, and initiated an agency "shootout" that led to the selection of Portland (Ore.)-based Wieden + Kennedy, the masterminds behind Nike Inc.'s "Just Do It" campaign. Agency President Dan Wieden, who had handled small assignments for Coke for nearly a decade, admits that he took the new assignment with some trepidation. "The layers of bureaucracy at Coke prevented you from doing good work. They had a huge reliance on [focus group] testing. And people would make decisions based not on what was in front of them, but would try to second-guess what people above them might think."

But Minnick's new team, led by creative director Lee, gave Wieden carte blanche. The result, the "Coke Side of Life" campaign unveiled earlier this year, was hailed by ad critics like *Chicago Sun-Times* columnist Lewis Lazare, who credited the spots with putting Coke advertising "gloriously back on track." Katie Bayne, a senior vice-president who oversees Coca-Cola trademark products, notes that four of the new commercials, including one where a young male

EXHIBIT 3

Mary's Makeover How she's overhauling Coke's marketing machine			
Anticipate the Customer Coke has always thought in terms of traditional drink categories like cola or juice. In the past, innovation meant incremental line extensions such as new flavors. But Minnick wants Coke's marketers to think more creatively about consumers' needs. That has led Coke to consider creating drinks that cater to, for example, the desire to feel healthy.	Retool Tired Brands The cost of launching a new brand can be prohibitively expensive. So while Coke is creating some new brands, it is also repositioning existing ones in categories where it's behind. In the U.S., Coke dusted off the Tab brand to create an energy drink for women, and it's using the Sprite name for a new energy beverage in France.	Engage Partners Coke's independent bottlers have long resisted the company's efforts to launch niche brands, refusing to carry some new products that they deemed low volume. So Minnick has been bringing its bottlers into the decision-making process to get their input—and, Coke hopes, get them on board—from the outset.	Don't Fear Failure Coke has a history of planning and then planning some more—with the result that many new products never made it out of the lab. But as head of a Coke in Japan, Minnick perfected the art of putting new drinks out on the cheap and then using quick feedback from retailers to determine which new drinks were resonating with consumers.

repeatedly steals sips from a soda fountain while the clerk isn't looking, ranked among the highest-scoring Coke commercials ever in independent consumer testing. That's good news, but people who work for Minnick know better than to bask in the momentary

glory. "She's not one to celebrate," says Lee. "We don't spend a lot of time talking about why something is good."

Source: Dean Foust, "Queen of Pop," *BusinessWeek*, August 7, 2006, 44-53.

Case 6-7

Keurig Inc.

A Wednesday afternoon in February 2003 found Keurig Inc.'s president and CEO Nick Lazaris heading south on Interstate 89 back toward his Wakefield, Massachusetts, office and mulling over the day's events in preparation for a briefing with his senior management team (see Exhibit 1 on page 572). He realized that the next two weeks would be critical to the success of the company's newest product initiative in the single-cup coffee market. Lazaris had just wrapped up a presentation to the Green Mountain Coffee Roasters Inc. (GCMR) management team, one of the company's strategic partners and an investor in its business. While reviewing the company's progress toward the launch of its innovative coffee-brewing system into the at-home consumer market, GCMR had asked Keurig to reconsider its decision to use a different version of the coffee portion pack, known as a K-Cup, in the consumer market. In making its request, GCMR had offered a number of compelling reasons for using the existing commercial portion pack in both channels.

As he drove, Lazaris passed a new Starbucks and reflected on how gourmet coffeehouses had helped pave the way for Keurig's single-serve brewing system. The proliferation of soft drinks since the 1960s had caused coffee to lose its place as a central component of social gatherings, spurring a precipitous drop in coffee consumption to an all-time low of 6.1 pounds per capita in the mid-1990s from a peak of 16.5 pounds per capita in the mid-1940s.¹ The entrance of gourmet coffeehouses had reinvigorated the market, developing a distinct subculture of coffee drinkers and educating younger consumers about great traditional coffees as well as espresso and milk-based specialty beverages. As a result, by 2003 an

¹United States Department of Agriculture.

Source: Elizabeth L. Anderson, Keurig at Home: Managing a New Product Launch, Kellogg School of Management, January 27, 2006. One-time permission to reproduce granted by Kellogg School of Management.

estimated twenty million Americans were drinking gourmet coffee on a daily basis.

Keurig's launch of a single-cup brewing system in the office coffee service market in the late 1990s had benefited from coffee drinkers' increasing sophistication. Office employees could appreciate the greater variety, freshness, and convenience derived from the ability to brew a single cup of coffee on demand. Office managers recognized the advantages garnered from less coffee waste, increased employee productivity, and decreased hassle associated with tending the coffee machine.

February 2003 found Keurig poised to launch its new model B100 system in the at-home segment with hopes of repeating its success in a much larger but more competitive market. With rumors of other single-cup competitors ready to enter the market, Lazaris knew Keurig needed to move quickly in order to obtain its desired positioning in the emerging single-cup consumer market. Revisiting the decision to proceed with a two-K-Cup strategy had the potential to derail the company's launch efforts and demanded rapid attention by Lazaris and the senior management team. Reevaluation of the K-Cup decision would also force them to rethink other elements of their product plans, including pricing and marketing. With less than six months until the September launch, time was of the essence.

The Company and Its Products

Keurig Inc. had been founded to develop an innovative technique that would allow coffee lovers to brew one perfect cup of coffee at a time. Beginning with the company's inception in 1992, the word "Keurig," from the Dutch word for excellence, had been the guiding principle behind the development of its products and services. The company leveraged investments from venture capital funds to transform its concept for a single-cup brewing system into a commercially viable business with the development and patenting of a single-portion pack and a revolutionary new coffee brewer. The first brewer targeting the office coffee service market, the