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 percent[1] in only two weeks on the heels of a 75 percent five-year growth trajectory and 25–30 percent[2] 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," 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."

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."

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[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.